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UNITED STATES

U.S. Seeking Dominant Position in New World Order

91CM0547A Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No. 452, 5 Jul 91 p 48

[Article by Chen Weibin (7115 4850 2430): "What kind of New World Order Is To Be Established?"]

[Text] In recent years, many leaders from different countries have been discussing the issue of establishing a new world order. After the end of the Gulf War, President Bush delivered a long speech on the so-called "new world order after the cold war." According to him, the establishment of "new world order" refers to the "joint efforts of the U.S. and other countries to oppose aggression and strive for global stability and prosperity." Bush also listed four principles for establishing the "new order," that is, "peaceful resolution to conflicts, united efforts against aggression, reduction and control of weapons, and fair treatment of all nations." The U.S. advocacy of "new world order" has aroused public interest around the world.

What are the basic assertions in the U.S. proposal about "new world order?"

First, according to the U.S., the Gulf War is an important part in the establishment of new world order, an opportunity to establish the American version of new order. Bush stated outright that after the Gulf War the U.S. would "lead a new world abroad," and was prepared for "entering the next American century."

Second, from the viewpoint of global strategy, the U.S. intends to establish a security system with itself as the core. Like the solution to the Gulf crisis, implement a collective security structure which takes the U.S. force as the pillar, and divides responsibilities among its allies to assure regional security and American interests. American military presence in Europe and Asia may guard against the U.S.S.R., and move Europe and Japan to maintain regional security and stability. After the Gulf War, out of the need to consolidate American "basic interests" in the Middle East, the U.S. immediately made security arrangements for that region. Its intention was to take Middle East security after the Gulf War as the start to establish the "new world order." However, either its recent proposal for solving the Arab and Israeli conflict, or the proposal for arms control and arrangement in the Middle East was opposed by some Middle East countries because of the American unchanging pro-Israel policy. And there are other difficulties.

Third, the U.S. seeks to impose Western and American capitalist values upon other nations and carry peaceful evolution to socialist nations. Politically, the U.S. flaunts the banner of "democracy, freedom, and human rights." Economically, it advocates privatization and market economy, attempting to change the fundamental political, economic, and social systems in socialist countries. In

third world countries, the U.S. uses the carrot-and-stick policy, pushing for political pluralism and the Western "democratic system," even using force to subvert some states, and has tried to maintain the old world economic order. World opinion points out that the U.S. is practicing a new hegemony in the 90s.

Many countries are skeptical of the U.S. effort to establish a "new world order." The reasons are: First, the U.S. is ambitious, but its power is inadequate. The Gulf War shows that the U.S. must acquire assistance from its allies if it wants to serve as the world military police. It was the first time that the U.S. had a war by sending its soldiers while relying on the monetary resources of Japan, Germany, Saudi Arabia, Kuwait and others. It also tried to win cooperation and support from the Soviet Union and China, and made use of the U.N. in dealing with the conflict and crisis. This indicates that the U.S. has failed to reverse its decline in overall national strength since the invasion of Korea and Vietnam, and lacks the capability for total dominance of the world. Second, looking at the current world pattern of "one superpower plus multipowers," West Europe, Japan and the U.S. have formed a tripod position economically. American economic strength has declined, and European and Japanese economic strength is rising. In fact, Europe and Japan are no longer content with their subordinate roles in the Western camp because of their rising economic positions. They demand that they be treated as equals with the U.S. and jointly dominate the world. France and other European countries took a different stand about the issue of reestablishing a Middle East new order after the Gulf War. It was a challenge to American hegemony. The differences in the three economic pole structure among the U.S., Europe, and Japan will be intensified. Third, although the future of the U.S.S.R. is uncertain, it still is a military power. In its effort to establish a new world order, the U.S. has encouraged peaceful evolution in socialist countries, and support and cooperation from the Soviets. Western opinion maintains that internal political, economic, and nationality crisis in recent years, and being busy with their own affairs, the Soviet Union has given up confrontation with the U.S., and the military threat to the U.S. has decreased, but it is still only second to the U.S. militarily. It will play a role in establishing the new world order. The U.S. cannot ignore the U.S.S.R. and act as it wishes. Fourth, China is politically stable and economically sound. Third world countries including China, are playing increasingly important parts on the world stage and in the U.N. Their voice of opposition to power politics and hegemony is becoming louder. Under such circumstances, the attempt of Western nations headed by the U.S. to control third world countries by political pressure and economic aid conditions will intensify conflicts and confrontations between them.

The U.S., therefore, can in no way change the trend of multi-directional development in the world, and become the monopoly power in creating a "one pole world", although it may possibly strengthen its position and influence in a period of time after its victory in the Gulf War.

In regard to establishing a new world order, the Chinese government has a consistent stand: All nations have the equal right to participate in world affairs. Every country has the right to choose its social system and development model according to its conditions. No country can interfere in other countries internal affairs, or impose its own values and models on other countries. All nations must have mutual respect for each other's sovereign rights and territorial integrity, oppose the use and threat of force, and oppose war as a means of resolving international conflicts. And promote equal and mutually beneficial economic cooperation and trade, and pursue mutual development. Only by establishing such a new political and economic order will it

accord with the will of the people of the world, and truly maintain all nations' security and interests.

In a word, the question of what kind of new world order is established will become the focus of fierce competition among all forces, especially among big nations in the world in the future. The nature of such a competition is whether to continue and strengthen the old world order of power politics and hegemony in the name of "new world order" or establish a reasonable, and just world political and economic order demanded by people of all nations, based on the five principles of peaceful coexistence.

PROVINCIAL

Improve Financial Conditions of Shanghai Enterprises

91CE0788A *Shanghai JIEFANG RIBAO* in Chinese
14 Aug 91 p 5

[Interview with Mao Yingliang (3029 2019 2733), President of the Shanghai Branch of the Industrial and Commercial Bank of China, by correspondent Liang Yiliang (2733 0076 0081) and reporter Shen Keqiao (3088 0344 0829): "Improving Financial Conditions for Large- and Medium-Sized Enterprises—Interview with Mao Yingliang, President of the Shanghai Branch of the Industrial and Commercial Bank of China"]

[Text] The large- and medium-sized state-run enterprises are the primary mainstay in China's ongoing modernization; they are the major source of the state's revenue. However, the problems that have now emerged in compact form in the monetary operations of large- and medium-sized state-run enterprises, such as the lack of liquid funds for the proper organization of production, the failure to obtain reimbursement of funds on completion of projects that have gone into operation, lack of funds for technological innovations that would improve facilities for further development, failure to recover funds immediately after delivery of goods, etc., constitute a major and most perplexing inconsistency in the development of these large and medium-sized enterprises. How can we help these large- and medium-sized enterprises escape from their dilemma and create for them a better financial scene so as to revitalize them? Because of all these concerns we interviewed Mao Yingliang, President of the Shanghai Branch of the Industrial and Commercial Bank of China [ICB].

President Mao said, the Shanghai branch of the ICB has all along had broad business contacts and economic relations with the widest range of industrial and commercial enterprises. In addition to actively arranging for availability of funds needed to support the large- and medium-sized state-run enterprises, the bank also assumed a large proportion of loans granted for reasons of policy. In 1990, the bank complied with the State Council's demand for "continuation of the policy of dual [i.e. financial and credit] retrenchments and an appropriate readjustment of capacities," strictly controlling the credit volume, and granted loans in a timely and well-proportioned manner. The balance of various kinds of loans at the end of the year reached 40.6 billion yuan; 6.7 billion of these were new additional loans, which made for an increase of 19.6 percent. Out of the newly granted loans, 80 percent were mainly used for the needs of "double-guaranteeing" enterprises [those that guaranteed profits for the state and technological improvements], also the needs of enterprises that earned foreign exchange through exports, and for loans to enterprises of the first and second category, thereby forcefully promoting the continued steady and harmonious development of Shanghai's economy. We have to realize, though, that after the responsibility system

for business operations was instituted in Chinese enterprises, the relationship between the enterprises and the banks has undergone important changes, mainly in that the former state of affairs, when enterprises basically relied on the state to freely provide funds, was completely done away with. Management philosophy, financial and risk awareness in the enterprises were all enhanced, and the production and operating mechanism of the enterprises began to develop in the direction of meeting the needs of the socialist planned commodity economy. However, at the same time as economic reforms were rapidly initiated, some very basic problems did not attain optimal solutions, and this, to some extent, impeded the development of enterprises, and it was the large- and medium-sized state-run enterprises that first were affected. They came to experience all kinds of difficulties, mainly obsolescence of production equipment, backwardness of techniques and technologies, and the steep decline of their economic efficiency.

At this point, President Mao expressed his own views with regard to the causes of the above-mentioned problems. He said that viewed under the aspects of comparative economics, China is one of the countries of limited resources, and its funds available for production and construction, i.e. one important component of its resources, will possibly for a long time to come remain in a state of deficiency. However, the problem of China's large- and medium-sized enterprises presently experiencing shortages of funds is not yet a "resource deficiency" in the above sense, but rather a kind of "management deficiency." In the last few years, the state has invested large sums of money in its large- and medium-sized enterprises. According to ICB statistics covering 7,035 large- and medium-sized enterprises throughout the country, new loans during 1990 alone amounted to 47.16 billion yuan, an increase of as much as 31.3 percent, and by far in excess of the growth rate of enterprises. At the same time, funds in the hands of large- and medium-sized enterprises remained high and showed no signs of declining. In 1990, three types of funds being tied up (funds in finished products, funds in delivered goods, receivables and prepayment loans) showed an increase of 60 billion, as compared with the beginning of the year, or a 42.8 percent increase. There is, therefore, no deficiency in the general sense of funds for large- and medium-sized enterprises, but rather an indication of a kind of shortage of funds paid into the banks coupled with a simultaneous inordinately long retention of funds. It clearly indicates that the present external conditions for the large and medium-sized enterprises, the quality of these enterprises, as well as their production and operational mechanisms have not yet been able to adapt to the development of a planned commodity economy in China.

From the standpoint of the functional demands of the banks themselves, how can we in concrete terms create favorable financial conditions for the large- and medium-sized enterprises? President Mao said that Shanghai is a city with a comparatively dense concentration of enterprises, and comparing it with other fraternal provinces and municipalities, we find that the fund difficulties that are

being experienced by its large- and medium-sized enterprises and the problems of optimizing fund use and developing enterprises, are inconsistencies that are partly of a common character but partly also of a specific character. Based on the spirit of the State Council's "Circular Concerning the Further Revitalization of State-Run Large and Medium-Sized Enterprises," and based on the relevant dispositions of the ICB head office, and on conscientious investigation and research, the ICB formulated not long ago "Certain Suggestions for the Support and Revitalization of State-Run Large- and Medium-Sized Enterprises," which were implemented from the beginning of July. The "Certain Suggestions" comprise ten articles, which in substance prescribe the following:

1. Continuation of a policy of granting credits with certain particular preferences, so that over 80 percent of all new credits throughout the year shall be for the support of state-run large- and medium-sized enterprises and for the financial needs of the state's key projects.
2. Increased loans for technological renovations, with a discounting of interests for part of the loans for technological renovation projects. Accelerating the process of technological and equipment renovation in the large- and medium-sized enterprises.
3. Increased loans for scientific and technological development. This year 150 million yuan shall be allocated for scientific and technological development, to be used concentratedly for the spread and application of important scientific research achievements and the absorption and adoption of imported advanced production technologies and scientific research results.
4. Adopting the method of granting loans for specific projects to and support readjustment of the industrial structure.
5. Through loaning capital stock to the Chinese side, through international leasing, and other such methods, support shall be given to state-run enterprises in their induction of foreign capital and in accelerating the development of a foreign trade-oriented economy.
6. Instituting loans on favorable terms for special purpose reserves, with an interest rate floating at around 10 percent, to support state-run commercial and wholesale enterprises in their fullest the use of "reservoirs" [special fund reserves].
7. In view of the factual difficulties caused by the large scale defaulting by outside units in their payments to the six large commercial and wholesale companies and to the metallurgical enterprises of this municipality, and due to the steep decline in their economic returns, it was decided to adopt the method of a one-time discounting of bills in connection with particular projects to clear all outstanding local payments owed for goods, the discount rate to be a favorable one. Throughout the eastern China, the ICB organization shall initiate an integrated method of settlements of bills for collection and acceptances and of acceptances of drafts to clear up all "triangular debts."

8. Continued opening up financial channels for diversification, adopting different direct financial measures to help large- and medium-sized enterprises and business conglomerates in the issue of monetary notes, bonds, and shares, thereby raising capital domestically as well as in the international money market.

9. Activating the amount of funds available, perfecting the system of self-replenishment of circulating funds, strengthening the capacity of enterprises for self-development.

10. On the precondition of firmly maintaining the principle of not granting loans to unprofitable enterprises, and in consideration of the steep decline in economic returns from enterprise activities, flexible credit measures shall be adopted, helping state-run large- and medium-sized enterprises quickly turn from deficit to profit operations and stopping the steep decline in economic efficiency.

President Mao said, in brief, the banks, as an all-embracing sector of the national economy, must certainly act in the spirit of a recent speech by Secretary General Jiang Zemin [3068 3419 3046], namely not only exert efforts to perfect the external financial conditions for enterprises, but also proceed with the perfection of the operational business mechanism of production enterprises. They must spur on the enterprises to enhance their business awareness, strengthen enterprise management, raise enterprise quality, and to progressively develop a mechanism for rapid self-development, so as to adapt to the development of a planned commodity economy, and hence promote a benign cycle throughout the entire national economy.

Shandong People's Congress Work Report

SK1609032391 Jinan DAZHONG RIBAO in Chinese
1 May 91 p 2

[Work report made by Li Zhen, chairman of the Shandong Provincial People's Congress Standing Committee, at the fourth session of the Seventh Shandong People's Congress on 22 April]

[Excerpts] Deputies:

Entrusted by the provincial People's Congress Standing Committee, I would like to make a report at the session on the work done by the Standing Committee since the third session of the seventh provincial People's Congress.

Over the past year, by resolutely regarding the party's basic line as a guidance, the provincial People's Congress Standing Committee has earnestly implemented the spirit of the Sixth and Seventh Plenary Sessions of the 13th CPC Central Committee and of the third sessions of the Seventh National People's Congress, as well as the resolutions and decisions adopted at the third session of the seventh provincial People's Congress. It has actively performed the duties and power imposed on it by the Constitution and the law in line with the tasks of stabilizing the situation, developing the economy, conducting reforms, and opening to the outside world; further enhanced the socialist democracy and legal systems; and has brought into play its functionary role of local organs of state power in upholding or improving the people's congress system, consolidating

and developing the political situation of stability and unity, and in promoting the stable development of politics, the economy, and society throughout the province.

1. The Standing Committee has earnestly studied and implemented the spirit of the Sixth and Seventh Plenary Sessions of the 13th CPC Central Committee.

The Sixth and Seventh Plenary Sessions of the 13th CPC Central Committee, which were held in 1990, were two very important meetings in our party's history. The sixth plenary session adopted a "decision" formulated by the CPC Central Committee on tightening the tie between the party and the masses. The seventh plenary session approved the "proposal" made by the CPC Central Committee on enforcing the 10-year program of the national economy and the Eighth Five-Year Plan. The two sessions have both met the demand of building socialism reflecting Chinese characteristics, stressed the effort to enhance and push forward the building of socialist democracy and legal systems, upheld and improved the people's congress system, and clearly pointed out the direction for success under the new situation in the people's congress work. [passage omitted]

Over the past year, under the guidance of the spirit of the Sixth and Seventh Plenary Sessions of the 13th CPC Central Committee, the Standing Committee has emphatically done a good job in grasping the following three tasks in line with the demand for implementing the spirit of a series of important directives on upholding and improving the people's congress system:

First, efforts have been made to adopt active measures to bring into play the main role of the people's congress in making close contacts with the masses. [passage omitted]

Second, efforts have been made to earnestly summarize the experience and to vigorously bring into play the functionary role of local organs of state power. [passage omitted]

Third, efforts have been made to enhance the propaganda and research work and to strengthen the sense of the people's congress. [passage omitted]

2. The Standing Committee has enhanced the local legislative work.

Over the past year, the Standing Committee, by proceeding from the practical needs of the province's economic construction and social development, has given the work of accelerating the pace of local legislation a prominent position; successively formulated or improved 13 local rules and regulations; made three statutory resolutions; and discussed and approved the seven local rules and regulations of Jinan and Qingdao cities. During 1990 the provincial People's Congress formulated the largest number of local rules and regulations.

In its legislative work in 1990, the Standing Committee upheld the principle of emphasizing vigorous formulation local rules and regulations with regard to stabilizing the situation and developing the economy. [passage omitted]

In order to ensure the implementation and enforcement of the "principle" of using scientific education to make the province flourish, the Standing Committee further extended the work of formulating rules and regulations in this regard. [passage omitted]

The people's congress system is the fundamental political system of our country. In line with the demand of upholding and improving the people's congress system, the Standing Committee, following its submission of the "discussion regulations" of the provincial People's Congress to the third session of the seventh provincial People's Congress for discussion and approval, discussed and approved again in 1990 the "several provisions" formulated by the provincial People's Congress Standing Committee with regard to approving the capital city and the larger cities approved by the State Council to draw up local rules and regulations. These provisions have further provided the legal guarantee for the Standing Committees to perform their duties and right.

In addition, in line with the demands set by the National People's Congress Standing Committee and the State Council, the Standing Committee successively adopted various measures to solicit public opinions on the 20 draft laws, including the "national flag law," the "railway law," and the "budget law."

3. The Standing Committee has enhanced the legal supervision.

In its legal supervision in 1990, the Standing Committee gave prominence to the supervisory work and supported the focal point of having "the government and the people's court and procuratorate" perform their duties and right and manage various undertakings in line with the law. [passage omitted]

In order to consolidate and develop the political situation of stability and unity, the chairman, vice chairmen, and some members of the Standing Committee went to the cities of Jinan, Qingdao, and Heze in April 1990 to inspect the enforcement of the "punishment regulations of public security control" and the struggle against "obscene things" and "six vices." [passage omitted]

In order to remain within the law on the stable development of the economy and various social undertakings, the Standing Committee and various special committees have supervised and inspected the enforcement of a large number of important laws, rules, and regulations. [passage omitted]

The Standing Committee has continued to improve the leadership and supervision over the work of popularizing legal systems according to the demand set in the "five-year plan" approved and relayed by the CPC Central Committee and the State Council with regard to basically popularizing legal knowledge among citizens, as well as the demand set in the "resolution" made by the National People's Congress Standing Committee with regard to basically popularizing the legal knowledge among citizens. [passage omitted]

The Standing Committee has regarded as an important channel the work of attending to the letters and visits from the masses, readjusted and reinforced the strength of organs in charge of attending to the letters and visits from the masses, continuously upheld and improved the effective system of rotation work undertaken by chairman and vice chairmen in taking care of important letters and visits from the masses, and realistically enhanced the leadership over this work. In 1990 the Standing Committee accepted 4,565 letters from the people, received 7,515 petitioners, supervised the judicial organs and law enforcement departments in dealing with or correcting some violation cases, and safeguarded the sanctity of the Constitution and the law.

4. The Standing Committee has enhanced and improved work supervision.

In 1990 the Standing Committee continued to regard the work of promoting economic development in rural areas as an important part of supervision and strengthened the supervisory measures in line with the new situation and problems cropping up in the rural reform and economic development. [passage omitted]

By aiming at the problems cropping up in the province's economic work in 1990, the Standing Committee improved the supervision over industry and communications as well as finance and trade. [passage omitted]

According to the resolution adopted at the third session of the seventh provincial People's Congress, the Standing Committee has improved supervision over the implementation of the plan of economic and social development and of the financial budget. [passage omitted]

By aiming at the problems that the people lodged strong complaints about—collecting charges, imposing fines, and apportioning expenses arbitrarily—staffers in the Standing Committee went to 10 prefectures and cities, including Taian, Weifang, Dezhou, and Liaocheng in March and July 1990 to investigate the problems of peasants' burdens. In August they went to Weihai city to investigate the collections of administrative and business charges. [passage omitted]

In 1990 the Standing Committee imposed more supervision on science and technology and education. [passage omitted]

In supervising nationalities' affairs, Overseas Chinese affairs, and foreign affairs, staffers in the Standing Committee inspected the province's work in this regard and heard the reports on the tourist and religious work. [passage omitted]

In addition, the Standing Committee has approved the personnel changes in line with the law. [passage omitted]

5. The Standing Committee has enhanced and improved the contacts with deputies and with the standing committees at city and county levels.

Over the past year, the Standing Committee has regarded more contacts with deputies and using deputies' roles as an

important part of implementing the spirit of the Sixth Plenary Session of the 13th CPC Central Committee, given the work an important position, and further enhanced the work. [passage omitted]

In 1990 the Standing Committee made new progress in the work of discussing the motions raised by deputies and handling their suggestions. [passage omitted]

Over the past year, the Standing Committee has increased contacts with standing committees at city and county people's congresses. First, it has continued the system of inviting the responsible comrades of city and county people's congress standing committees and of the prefectoral work committees to attend its meetings as observers. [passage omitted] Second, by aiming at the new situation cropping up in the term-shift election of deputies at county and township levels, it has held the second seminar on the people's congress work. [passage omitted] Third, it has sent its staffers to forums, experience-exchange meetings, and seminars sponsored by the People's Congress Standing Committees of a number of cities and counties (districts) or to carry out inspection and investigation. [passage omitted]

6. The Standing Committee has earnestly done a good job in conducting the term-shift election of deputies at county and township levels.

In line with the decision made by the National People's Congress Standing Committee, our province, during the period from November 1989 to the end of April 1990, conducted the term-shift election of deputies at county and township levels. The election is a big event of democratic political construction. [passage omitted]

In conducting the election, the Standing Committee has made achievements in the following areas: First, the elected deputies at county and township levels have a good political quality, are moral, have ability, and are entrusted by the masses. [passage omitted] Second, the elected leading bodies of political power at county and township levels conform with the demand of "four requirements" for cadres and have demonstrated the principle of combining the old with the new, combining personnel from various echelons, and having a rational structure. The masses have felt fairly satisfied with them. Third, the election has further enhanced the building of organs of grass-roots level power. [passage omitted]

Over the past year, in line with the demand of upholding and improving the system of people's congress and performing various duties, the Standing Committee has worked on self-improvement. [passage omitted]

Over the past year, although the Standing Committee has made marked achievements in work and brought into play the role of local organs of state power, it has still not done enough in line with the duties and functions imposed on it by the Constitution and the situation. Its legislative work cannot meet the demands of economic and social development, and some urgently needed economic laws and regulations have not been formulated. In conducting legal supervision, it has not effectively publicized or enforced

the existing important laws, rules, and regulations. The phenomena of doing things by neglecting the law, enforcing the law perfunctorily, and of not dealing with violations are relatively popular. In its supervision, the Standing Committee still has problems in not sufficiently inspecting the implementation of some of its resolutions and decisions on some important problems and of the suggestions, criticism, and opinions raised by the deputies; and in supervising the implementation perfunctorily. It also has some problems cropping up in making contacts with deputies and bringing the role of deputies into play, which should be further studied and dealt with.

Fellow deputies:

In 1991 we will realize the 10-year program and the Eighth Five-Year Plan and will continue with the programs for improving the economic environment, rectifying economic order, and deepening the reform drive. Success in the work for this year is of great significance. During the new year, the provincial People's Congress Standing Committee should, by regarding the party's basic line as a guide, deeply implement the spirit of the Seventh Plenary Session of the 13th CPC Central Committee and the sixth (enlarged) plenum of the fifth provincial party committee; and carry out in an overall way the resolutions and decisions made at the fourth session of the Seventh National People's Congress and the fourth session of the seventh provincial People's Congress. It will conduct its work by closely following the party's central tasks; earnestly perform the functions and duties imposed on it by the Constitution and the law; and actively contribute to upholding and improving the people's congress system, enhancing the construction of democracy and legal systems, and promoting further stable development in politics, the economy, and the society.

1. We should uphold and improve the people's congress system and vigorously build socialist democratic politics with Chinese characteristics.

The Seventh Plenary Session of the 13th CPC Central Committee pointed out that while continuing the economic system reform, efforts should be made to actively and adequately reform political systems and to build socialist democratic politics with Chinese characteristics. This is an important guiding principle which must be followed in enforcing the 10-year program and the Eighth Five-Year Plan. [passage omitted]

In upholding and improving the people's congress system, we should resolutely oppose and fundamentally negate the bourgeois liberalism idea for the people's congress system; safeguard, by taking a clear-cut stand, the fundamental political system defined in the Constitution; resolutely correct the erroneous viewpoints and practice of neglecting and "weakening" the position and role of the People's Congress; continuously upgrade the understanding of the entire society and particularly of the leading echelon about the extreme importance of upholding and improving the people's congress system; and in line with the principle of democratic centralism, further enhance the building of

local organs of state power at all levels so as to enable them to truly become an authoritative apparatus.

2. We should further enhance the legislative work.

Improving the socialist legal systems is an important guarantee for promoting the stable development of the program of reform and opening to the outside world and of the undertakings of building socialist modernizations, as well as for smoothly fulfilling the second-phase strategic target. [passage omitted]

3. We should further enhance the legal and work supervisions.

Safeguarding the sanctity of the Constitution to ensure that it and the law are enforced represents a fundamental guarantee for stable development in politics, the economy, and society. All Constitutional violations should be called to account. [passage omitted]

Standing Committee supervision should be based on implementation and enforcement of the 10-year plan and the Eighth Five-Year Plan and on the major and important problems that have generally concerned the masses. It should also be based on the "outlines," reports, and the resolutions and decisions on the economic plan and financial budget adopted at the four session of the seventh provincial People's Congress; as well as on the contents of reports on preventing "three arbitrary collections," punishing the corrupt, dealing blows at crimes, and enhancing the social peace. The Standing Committee should do a good job in organizing the work of inspection and observation; support and promote the work of the "government and the people's court and procuratorate" through supervision; consolidate and develop the excellent situation of stability and unity; and should promote the sustained, stable, and harmonious development of the province's economy.

4. We should further enhance the self-improvement of the Standing Committee.

Staffers in the Standing Committee should vigorously study the political theories and particularly the basic theory of building socialism with Chinese characteristics. The 12 principles summarized at the Seventh Plenary Session of the 13th CPC Central Committee represent the ideological weapon which can direct us in building socialist modernizations. [passage omitted]

Fellow deputies: Our country's Constitution clearly stipulates that our country with the people's democratic dictatorship is a socialist nation under the leadership of the working class and with the worker-peasant alliance as a foundation. Organs in which the people exercise state power are the National People's Congress and the local People's Congresses at all levels. Under the new situation, the local organs of state power at all levels are assuming the glorious but arduous tasks. In line with the tasks and demands adopted at the Seventh Plenary Session, the fourth session of the Seventh National People's Congress, and the fourth session of the seventh provincial People's Congress, let's raise our spirits, unite as one, and strive to

consolidate and develop the province's excellent situation and successfully reach the grand targets of the 10-year program and the Eighth Five-Year Plan!

This report will be submitted to fellow deputies for examination and approval.

FINANCE, BANKING

Bank Official Outlines Future Financial Reforms

HK0110004791 Beijing CHINA DAILY in English
1 Oct 91 p 2

[By staff reporter Yuan Zhou]

[Text] A top official from China's central bank yesterday spelled out the future of financial reform to hundreds of senior foreign bank executives.

Guo Zhenqian, deputy governor of the People's Bank of China, said that China would strengthen the central bank's macro-economic control and management so as to bring money supply and credit under strict control.

In a speech to the Ninth World Congress on Agricultural Credit, which opened in Beijing yesterday, Guo said that the central bank would be able to "effectively" use interest rates, reserve funds, refinancing, exchange rates and other means to stave off a new round of inflation.

The People's Bank of China is acting as a government office mapping out monetary and credit policies, and regulating and supervising financial institutions.

The Bank of China, the Agricultural Bank of China, the Industrial and Commercial Bank of China and the People's Construction Bank of China have now become the four Chinese powerhouses, meeting the bulk of the credit need of the country.

While tightening the reins of the four specialized banks, the central bank will allow them to introduce the enterprise-style management under which they could be responsible for their own profit and loss.

Guo said that as a way to "diversify social financial assets," the country would continue to encourage personal savings and expand the issue of bonds and stocks.

China will steadily develop the country's financial markets, improve the securities market and establish securities exchanges in major cities, he said. China's first security exchanges have been opened in Shanghai and Shenzhen, and, by the end of last year, the country had 160,000 financial institutions employing two million people.

Guo said a great number of nonbanking financial institutions such as trust and investment companies and securities companies have been set up for trust, leasing and securities trading.

Financial markets, including those for inter-bank borrowing and securities trading have also been opened, he said.

Many foreign financial institutions have been allowed to open in China, and China's financial institutions have managed to set up some establishments abroad, he added.

Purchase of Treasury Bonds Increases

91CE0745A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 31,
5 Aug 91 p 30

[Text] The Chinese Government has continually issued government bonds that mainly consist of treasury bonds. The total amount was 102.5 billion yuan (renminbi, same below) by the end of last year. Over the past several years, with the opening of the circulation market of government bonds, the value of treasury bonds has increased day by day. Starting 1 July 1991, cashing government bonds with interest has been underway as scheduled. The government will cash 15 billion yuan matured government bonds this year.

Issuing government bonds is one important way for many governments to manage their countries' finance in the contemporary world. China reissued government bonds in 1981, and at first depended on administrative units to allot quotas. Cadres, workers and the masses viewed it as "one's duty."

In 1988, the state preliminarily opened circulation markets for government bonds, and achieved good results. In 1989, instead of one channel, banks, financial and postal departments handled issuing and cashing value-ensured bonds and treasury bonds. This year subscription for treasury bonds was reformed again. In certain areas, financial groups tried to contract selling treasury bonds. One-third of 10 billion yuan of government bonds to be issued as planned will be given to financial groups for selling. This provides the new condition for commercializing government bonds.

With the increase in quantity and times of issuing treasury bonds, many enterprises raised funds by issuing financial bonds. China's stock exchange is growing quickly. Up to now, more than 300 cities have opened stock exchange markets, and trade is brisk. The various bonds are no longer sleeping at home as "dead money," but have become "live" for free trade. To some extent, the free stock trade stimulated the initiative of the masses to subscribe to treasury bonds. At the end of last year, the Shanghai Stock Exchange, the largest one in China, opened. The volume of stock trade increased, and the method was changed from the low level counter trade to the comparatively high level trade with price competition in the stock exchange.

Currently, trade of government bonds has been brisk in the circulation market. In 1988, inflation swept across every part of the country, while the circulation market for government bonds had just started, 70 to 80 percent of government bonds were sold at that time. In the second half of last year, bank interest on deposit decreased; prices remained stable; and buying and selling government bonds basically kept balance. Since the end of last year, high

interest treasury bonds are in great demand. Various stock companies and individuals increase purchases of second hand bonds day by day.

Treasury bonds issued this year continually maintained high interest. The interest on three-year term treasury bonds is 10 percent, which is 1.72 percentage points higher than bank deposit interest for the same period. Interest income on treasury bonds purchased by individuals is not required to pay income adjusting tax. Treasury bonds are preferred to other stocks. Therefore, people rushed to purchase treasury bonds when they were just issued in mid-May of this year in some areas.

At present, the main characteristic of the circulation market for government bonds in the mainland is, instead of administrative issuance, people subscribe to government bonds on their own initiative as a kind of investment. Because of the active circulation, the market price is getting reasonable. That is to say, the profit for buying second hand bonds is gradually closer to bank interest rate for the same period; and regional price differences are reduced. Therefore, it may be considered that high interest is certainly one reason government bonds are attractive, but more important is the opening of the circulation market for government bonds.

Besides, China's current stock market is quite limited, and risky. The majority of the population is not accustomed to stock trade. However, purchasing treasury bonds is not only a safe investment, but also more profitable. It is estimated that treasury bonds will still have a broad market for a quite long period.

INDUSTRY

Raw Materials Output August Figures Released

HK2009140491 Beijing CEI Database in English
20 Sep 91

[Text] Beijing (CEI)—Following is a list of the output volume of raw materials in August 1991, released by the China State Statistical Bureau:

Item	Unit	1-8/91	8/91	8/90
Iron ore	10,000t	11423.7	1527.7	1450.0
Pig iron	10,000t	4333.0	588.4	536.5
Steel	10,000t	4532.2	601.6	543.0
Rolled steel	10,000t	3578.62	463.8	423.67
Ferro alloys	10,000t	151.24	22.14	20.58
Coke	10,000t	3536.47	448.14	432.15
Ten Nonferrous Metals	10,000t	164.18	21.91	19.73
Of: Copper	10,000t	36.15	4.38	4.55
Aluminium	10,000t	62.09	7.99	7.52
Copper products	10,000t	31.3	4.22	3.75
Aluminium products	10,000t	29.14	3.88	2.98
Alumina	10,000t	98.46	13.46	12.39

Item	Unit	1-8/91	8/91	8/90
Sulphuric-iron ore	10,000t	821.03	128.91	113.70
Phosphorus ore	10,000t	1350.89	178.13	198.93
Timber	10,000c.m.	2526	211	195
Artificial Board	10,000c.m.	172.33	22.60	18.11
Cement	10,000t	15310.2	2181.6	1766.1
Plate glass	10,000c	5602.74	709.61	653.83

Notes: M.M.—million meters, C.M.—cubic meters, C—cases

Main Chemical Output August Figures Released

HK2009135291 Beijing CEI Database in English
20 Sep 91

[Text] Beijing (CEI)—Following is a list of the output of main chemical products in August 1991, released by the China State Statistical Bureau:

Item	Unit	1-8/91	8/91	8/90
Chemical fiber	10,000t	121.06	13.61	11.92
Sulphuric acid	10,000t	861.29	112.86	99.10
Dense nitric acid	10,000t	21.55	2.60	2.33
Soda ash	10,000t	253.42	31.75	30.44
Caustic soda	10,000t	232.98	29.94	28.19
Ethylene	10,000t	114.62	14.21	11.49
Calcium chloride	10,000t	149.83	17.10	16.95
Pure Benzene	10,000t	47.24	6.13	3.79
Synthetic ammonia	10,000t	1448.56	181.35	167.59
Fertilizer	10,000t	1328.01	169.72	157.59
of: Nitrogen	10,000t	1000.67	125.59	118.29
Phosphorous	10,000t	321.59	43.08	38.11
Potash	10,000t	5.61	1.03	1.20
Chemical pesticide	10,000t	19.32	2.10	1.87
Paint	10,000t	63.06	8.34	7.56
Dyestuff	10,000t	9.57	1.05	1.27
Pharmaceuticals	10,000t	13.07	1.39	1.30
Chinese patent medicines	10,000t	17.64	2.03	1.67
Tyre	10,000	2612.02	348.23	285.86
Synthetic rubber	10,000t	23.01	2.48	2.25
Film	10,000m	9572	509	569
Color film	10,000m	9267	509	516
Plastics	10,000t	175.67	24.13	17.74

Notes: M—meters, T—Tons,

SMALL-SCALE ENTERPRISES

Editorial on Revitalization After Flood

91CE0749B Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 12 Aug 91 p 1

[Editorial: "Demonstrate the Spirit of Bitter Struggle; Recapture the Vigor of Township Enterprises"]

[Text] The broad masses of township enterprise workers and staff, under the leadership of every level of party and government, have been devoting themselves to flood relief efforts since June. They have demonstrated a revolutionary fighting spirit and an attitude of fearlessness. They have been a major force in the disaster relief efforts. We feel the utmost respect for township enterprise workers and staff in the disaster area, and hope they are doing well.

This extraordinary flood has inflicted enormous losses in life and property upon the people, and township enterprises have also suffered serious losses. Incomplete statistics from Jiangsu, Anhui, and five other provinces indicate that losses of more than 3.5 billion yuan have resulted directly from the floods. In spite of tremendous personal difficulties, township enterprise workers and staff looked at the overall picture and rushed to the front lines of flood relief efforts, actively sharing the state's burden and demonstrating a high degree of socialist enlightenment. The facts have shown that township enterprise workers and staff are an organized, disciplined, effective, and sophisticated force.

The fearsome flood waters have gradually retreated, but we are now faced with the even more difficult task of resuming and developing production. Township enterprises are relatively developed in all of the seven provinces where the floods occurred, with the exception of Guizhou. The ability of township enterprises in these areas to resume production affects not only the ability of township enterprises throughout the nation to fulfill quotas in the state plan, but is also directly related to the ability of peasants in the disaster areas to increase income while cutting back on production. It directly affects the stability and development of the rural economy and the entire national economy. For this reason, we must maintain a keen sense of mission, responsibility, and urgency as we continue the heroic and fearless spirit of bitter struggle which we demonstrated during the disaster relief effort. We must devote this same spirit to the struggle to resume and develop production.

Of course, we must not underestimate the difficulty of restoring production, but we must have the confidence and courage to overcome difficulties. Township enterprises, which had come to be known as "grassroots industry" during ten years of development, have accumulated significant economic resources, and more importantly, every enterprise has developed a spirit of fearlessness in the face of difficulty. What we need today is to continue this spirit. When a building collapses, it must be rebuilt. When machinery is damaged, it must be repaired. When procurement and marketing channels are cut off, they must be reopened. We must do everything in our power to restore production, and we must take advantage of every second and every minute to recoup our losses. We are confident that the broad masses of township enterprise workers and staff have not been frightened by the floods, much less will they give in to hardship.

We must be aware that this disaster has affected a large area, and that the state, with its limited resources, cannot

satisfy everyone's needs within a short time. We must look toward self-reliance and bitter struggle as the way to restore and develop production. We must overcome the psychology of waiting, depending, and demanding. We must use our heads and think of ways to overcome our difficulties. Government agencies in charge of regulation of township enterprises in areas affected by the flood must work to strengthen organization and leadership in this area. They must go personally to the front lines of the struggle, help enterprises formulate plans for restoring production, do a good job of coordination, and do everything possible to clear away obstacles to the restoration of production by enterprises.

We are happy to see that the broad masses of township enterprise workers and staff in the flooded areas have already been mobilized, and a number of enterprises have already recovered from the deluge and resumed normal production. We are confident that under the leadership of the party and the government, with vigorous support from all sectors of society, and with an arduous effort on the part of the broad masses of township enterprise workers and staff, township enterprises in the flooded areas will certainly regain their former strength and make even greater contributions to the stability and development of the rural economy and the entire national economy.

Flood-Damaged Township Enterprises in Jiangsu

91CE0749A Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 16 Aug 91 p 1

[Article by Chang Yongping (1603 3057 1627) and Zhu Xianchun (2612 0341 2504): "Disaster-Stricken Enterprises Need Support of Entire Society"]

[Text] In late July, these reporters went to Gaoyou Municipality, an area in southern Jiangsu Province affected by the floods, to visit 10 or 20 enterprises which have suffered varying degrees of damage. In our interviews, and particularly during contact with 10 or 20 factory managers, these reporters got a vivid feel for the severity of the losses suffered by township enterprises in this 100-year flood, and for their great contributions to the disaster relief effort. Since the waters have receded, enterprises have had great difficulties in resuming full production for a number of reasons, so the policy of using industry to subsidize agriculture will represent an even greater burden in the future. The factory heads (managers) have called upon enterprises in every industry to support the efforts of disaster-stricken enterprises to resume production, and they feel that township enterprises, which are a mainstay of the rural economy, should be accorded an appropriate degree of priority in the relief efforts.

Since the beginning of this summer, 75.6 percent of the land in Gaoyou Municipality has been covered by flood waters, and 90 percent of the township enterprises in the municipality have been forced to suspend production, resulting directly in losses of 50 million yuan.

Cadres, workers, and staff in the township enterprises here faced the disaster calmly with a spirit of self-sacrifice as

they struggled on the front lines against the flood. Township enterprises throughout the municipality organized nearly 6,000 workers and staff into various disaster relief teams which contributed more than 50,000 work days. Many enterprises donated materials and funds worth 1.55 million yuan, thus constituting one of the major forces in the relief efforts in Gaoyou Municipality.

Since the flood waters have receded, township enterprises here have done everything possible to resume production and reduce their losses to a minimum, but due to the severity of the disaster and the size of their losses, efforts to resume normal production have met with various difficulties. The most pronounced has been a lack of funds.

At the Zaisheng Cotton Velvet Mill, these reporters saw a levy stacked up outside the factory, and outside the levy water was still standing. There was a little standing water inside the mill, one building had collapsed, and cotton velvet worth more than 100,000 yuan had been water-logged. The head of the mill, Zhong Guide, told these reporters that the mill had suffered direct losses of 400,000 yuan, but it could not get disaster relief loans from the banks because it was a small mill. He said it would take 30,000 yuan in repair expenses and 100,000 yuan in operating capital to resume production. But where is such money to come from? By talking with this factory head, these reporters got a feel for just how difficult things are.

At the smelting factory, these reporters witnessed a scene of busy production activities. At the height of the floods, water stood at a depth of 1.3 meters in the factory. The factory organized a protection team of 100 people, which the factory head, Huang Kaitao, led in a continuous 15-day struggle. The factory's 600,000 yuan worth of equipment was undamaged, and production resumed three days after the flood waters receded. The factory head told these reporters that in spite of their great efforts, the factory had still suffered losses of more than 300,000 yuan, and that production had only been partially resumed. There were great difficulties preventing them from resuming normal production, the key one being funds. He called upon enterprises unaffected by the floods to pay off debts owed to enterprises which had been affected, and said that this was also a type of disaster relief.

During our interviews, the factory heads of nearly every factory which had insurance policies mentioned the issue of insurance claims. The current problem is that it will be difficult to completely settle all insurance claims all at once, so many enterprises have been unable to resume production. There have been relatively serious disagreements between insurance companies and enterprises regarding assessment of damages. Factory heads have called upon the insurance sector to come up with a part of the funds to help enterprises resume production as quickly as possible. For enterprises without insurance policies, of course, severe losses have taught a bitter lesson.

Chen Gentian, the head of the electric cable factory, stated that township enterprises must rely upon their own savings to develop. They normally take out very few bank loans, and even if they do borrow money they have to pay

interest. He hopes banks, after this disaster, will be able to provide township enterprises with low interest loans, and asks that they look upon these loans as part of the disaster relief effort.

Zhu Huixian, deputy head of the municipality's Township Enterprise Bureau, stated that township enterprises over the past ten years have made contributions to the state and have made generous donations of manpower, funds, and materials to flood relief efforts, but as of 30 July, not a single township enterprise in the entire municipality had received one cent of disaster relief funds or one article of relief material. He hopes that the state will allocate funds and materials to township enterprises in the disaster area and that the various governmental departments will clear up some problems and enable township enterprises to resume production.

CONSTRUCTION

Progress of Housing Reform Reviewed

91CE0781A *Chongqing TIXI XINXI [SYSTEM REFORM NEWS]* in Chinese No 13, 5 Jul 91
pp 25-26

[Article: "National Housing Reform Methods in Miniature"]

[Text] Housing system reform is an important reform for the next decade. All areas take it very seriously and have accelerated it. By the end of February 1991, 42 cities and 119 counties in 23 provinces (municipalities) had put forward plans for comprehensive reform of the housing system. Some cities and counties formulated individual reform methods. Below we summarize what these areas are doing.

I. Adjusting Rent

Reforming housing rent is a central issue of reform of the existing housing system in China's cities, especially large- and medium-sized cities where renting public housing is the primary form and low-rents are the norm. This reform is a precondition for commercializing housing. In the current beginning stage of housing reform, rent reform is divided into the following types.

A. *Raising rent subsidies* Based on reality, rent for publicly-owned housing is raised correspondingly, then a housing subsidy is given to the employee living in the publicly-owned housing based on a certain ratio. Nationally, 29 cities and counties are using this method. Rent was gradually raised to quasi cost rent in Yantai, Shandong, Fengbu, Anhui, Tangshan, Hebei, Laiyang, Shandong, Qianshan County, Jiangxi, and Shenzhen City, Zhuhai City, Zengcheng County, and Taishan County in Guangdong.

Yantai City, a housing reform test point, has raised public housing rent to a standard of quasi cost rent, i.e., a monthly rent of 1.17 yuan per square meter, then a subsidy of 23.5 percent of the employee's base salary is given. However, the housing subsidy of many female household heads are difficult for enterprises and financial units at all

levels to bear, so it will be difficult to promote this method. Some cities have found a way to get around this problem.

Through practice, Shanghai and Guangzhou have found ways to increase rents and subsidies in small increments. This year, Shanghai is raising publicly-owned housing rents uniformly city-wide to the level of 0.46 yuan per square meter per month, and is correspondingly issuing a housing subsidy of 2 percent of the base salary of the employee living in the publicly-owned housing. Guangzhou is raising publicly-owned housing rents uniformly city-wide to 0.27 yuan per square meter per month. At the same time the renting household's unit is subsidizing the employee's rent at 40 percent of the total rent paid, based on the actual planned rental area within housing standards.

B. Gradually increasing rents without subsidies. That is, adjusting publicly-owned housing rent upward within the economic ability of the employee, and not giving subsidies. This method gets around the problem of housing subsidies, and reduces the burden on public finance and the enterprise. Forty-four cities and counties across the country have adopted this method.

Beijing differs from Shanghai and Guangzhou in rent adjustment. Beijing's method is to increase rent in steps without issuing subsidies. That is, the publicly-owned housing rent standard is increased in two or three small stages over two or three years until it reaches the level of a monthly rent of 0.55 yuan per square meter. Because the steps are short, and rent is increased in small steps or sub-steps the individual employee can afford it.

C. Rent reform interest. That is, first the publicly-owned housing in which an employee lives is reasonably priced, then housing rent is charged according to the interest rate on bank deposits. Nationally, about 30 cities and counties are using this method.

Jinsha County, Guizhou decided that if the employee cannot buy publicly owned housing at the retail price, then monthly rent would be calculated at seven per thousand interest monthly on the actual retail price. For publicly-owned housing not for sale, the rent is calculated at an interest rate of four per thousand. Jin County, Liaoning collects rent at an interest rate of 8.4 per thousand of the price of the publicly-owned housing. The methods adopted by Jinsha County and Jin County do not involve subsidies.

D. Accepting a housing surety (also called a deposit), paying rent with the interest. That is, the employee puts up a surety for a certain amount based on a set proportion of housing value or a specified standard, underwriting it with the interest from the surety without paying any other rent. When the housing is vacated the deposit is returned, but not the interest. Nationally, over 50 cities and counties have adopted this method.

Zhuzhou City, Hunan stipulates payment of a use deposit based on the area used by the tenants depending on the housing structure, age, number and height of stories, and number of attached structures. The deposit is put in the

bank, and the interest serves as rent. If the tenant does not continue to live in the publicly-owned housing, the deposit is returned. If the housing is damaged, a compensatory amount is deducted from the deposit.

E. Mixed rent. That is, the current rent is charged within the standard for the housing area stipulated by national and local governments. The portion exceeding the standard must be paid in line with cost rent or quasi cost rent.

Guangzhou stipulates that rent for all unit-rented publicly-owned housing within Guangdong stipulated standard will be calculated at 0.27 yuan per month, the excess portion will be calculated at 1.61 yuan per month.

Beijing stipulates that rent will be collected for all housing within the 14 square meters per capita in housing area (enforced for intellectuals and cadres at all levels according to relevant documents of the Central Committee and the State Council and various committees), based on existing rent standards. Rent for the excess portion will be calculated at a quasi cost rent of 1.34 yuan.

II. Selling Public Housing

Commercialized housing is the aim of China's housing system reform. Thus, housing reform documents issued by the State Council repeatedly emphasize that the sale of publicly-owned housing should be actively undertaken, and individual employees should be encouraged to buy housing, thus guiding purchasing power to improve residential conditions.

Currently, over 200 cities and counties nationwide have carried out preferential housing sales reform. This means one time preferential sale of housing by discounting the sale price of publicly owned housing based on a sensible standard. There are two payment methods: one-time payment in full or payment in installments.

Beijing stipulates that the unit holding property rights sell new and old public housing at preferential conditions to employees at a standard price: the standard price for selling housing in the city is 380-430 yuan per square meter, in suburban counties it is 260-380 per yuan. The unit may provide preferences at three levels based on the employee's seniority. Employees who buy housing early are granted a one time 10 percent benefit. In addition, based on the principle of reducing payment for land and compensation for houses dismantled or rebuilt, the opportunity is given to purchase current housing. The unit holding property rights may grant a 20 percent discount to all those making a one-time payment in full. For those paying in installments, the first payment must be no less than 30 percent of the amount owed, and they can apply to the bank for a long-term low interest mortgage for the remainder.

Guangzhou stipulates that employees buying housing will receive a preferential price according to job seniority. Employees purchasing the residence where they currently live will have the price reduced by the compensation for land and rebuilding. Those who buy the publicly-owned housing where they currently live within a year after the

housing reform begins may receive a 20 percent early house-buying benefit in the price after deducting the land and dismantling compensation. Those who buy housing "above standards" will not receive a benefit for the portion "above standard" and the price will be increased accordingly.

Shanghai stresses the principle of sell first, then rent, demanding that each unit give priority to selling housing on hand, in principle not less than 20 percent of the total annual assigned housing. The base new housing sale price of preferentially priced housing is 250 yuan per square meter, old housing is discounted 10 percent, and on this basis buyers who make a one-time payment in full receive a 20 percent benefit. Those paying on installments who make an initial payment above 30 percent, and additional payments of more than 10 percent receive a 2.5 percent benefit.

III. Cooperative Housing

In the current situation of straitened state finances, pooling capital and building housing cooperatively is highly regarded. Nationwide 95 cities and counties have tried this on a trial basis.

A. *The individual, unit and state pool funds collectively.* That is, the individual puts up a major portion, the unit puts up a small portion and the state provides a subsidy.

Tianjin Municipality has adopted a method of the individual putting up the capital with financial help from his unit and a suitable subsidy from the government to build modestly priced housing. In 1989 alone, a half million square meters of housing were constructed.

The method used in Shanxi for building housing with pooled funds involves the individual putting up the major portion, the unit providing subsidies, the state providing the policy, and the bank providing the loans. Already 1.063 million square meters of commercialized housing have been built this way.

B. *The individual and the state jointly pool funds.* This is primarily used to remodel dangerous and old housing in some cities. For example, remodeling the old city of Dongnanyuan in the Xuanwu District of Beijing, the individual provided funds of 280 yuan per square meter, and the rest was provided by the government.

C. *The individual and unit jointly pool funds.* That is, employees put up varying amounts of capital for housing construction based on their own housing needs, and the unit is responsible for housing construction within the residential planned area and other expenses.

D. *Establish a residential cooperative to solve problems.* That is, attract individual funds, and pool unit funds to buy shares in a voluntary association with state support.

Guangzhou has closely integrated housing reform and the housing shortage, and through multiple channels, forms and levels has pooled funds to build housing to solve the housing problem.

IV. Other

Based on the above reforms, many places have carried out some creative reforms in line with their own circumstances.

A. *New housing, new system.* Where it is difficult to get reform of large areas of old housing started, many cities have implemented new housing new system. Shanghai Municipality stipulates that the right to use the various types of newly allocated publicly-owned housing can only be obtained after subscribing to bonds for Shanghai residential construction, and paying rent in line with stipulations. The base number of residential construction bond purchases is based on the age of the building, area, number of stories and other factors, and is set at 20-80 yuan per square meter of area. Residential construction bonds are for five years, and capital is returned with interest in the last period. Shanghai residential bonds are sold and redeemed through the Construction Bank and can be circulated and transferred through agencies that deal in bonds or through stock markets approved by the state.

B. *Establish a housing fund.* That is, concentrate housing construction, management and expense funds for rational use.

Yantai City set up a housing savings bank, and established a housing fund systems at the city, enterprise and individual level. The city government also drafted "Provisional Measures To Manage Yantai City Housing Fund Settlement" so there would be administrative law guarantees for the housing fund system. Currently, over 95 percent of units in the city have established residential fund systems and bank deposits have reached 94.78 million yuan.

C. *Promoting residential public accumulation.* That is, compulsory long term savings.

The method in Shanghai is that the employee pays into the fund 5 percent of his monthly wages, and the employee's unit pays 5 percent of the employee's total wages, and both revert to ownership of the employee himself. Subsequently, the amount paid into the fund is adjusted with economic growth and changes in the individual's income. The employee's fund can only be used to buy his own residence, build his own residence himself, and rebuild or remodel a private residence. The employee can use the accumulation funds of members of his own household and those directly related to him. Each unit can also use with compensation the excess residential accumulation fund of its own employees to build residences.

FOREIGN TRADE, INVESTMENT

Strategies Dealing With Foreign Economic Blocs

91CE0787A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 6, Jun 91 pp 4-9

[Article by Chen Dezhao (7115 1795 3564) of the Chinese Academy of Social Sciences' Institute of World Economics and Politics: "China's Response to the Development of World Economic Blocs"]

[Excerpt] [passage omitted] II.

When discussing the effect that the formation of economic blocs have on China, we often say they present both an opportunity and a challenge. However, this type of sweeping generalization cannot help us formulate a correct response.

The opportunities presented to us by the trend to form blocs are chiefly manifested in the following ways: (1) By eliminating market barriers, it encourages economic growth and the improvement of living standards. The increased demand that this generates creates new opportunities for China to export. (2) The EC's unified commodity standards make it easier for us to produce export goods for the European market. The unified and coordinated administrative and trade procedures that the EC imposes on member nations also benefit our exports. (3) Because barriers are eliminated within the blocs and foreign goods and capital can circulate freely, we can set up factories in countries where it is relatively easy to do so and, from there, export to markets where it has been relatively difficult for us to penetrate. (4) It facilitates our developing operations on a larger economic scale and using greater market flexibility. The realization of a unified financial market, gives us new opportunities in engage in banking and insurance.

Our main challenges are: (1) Economic blocs generally allow member countries to develop in the direction of even greater intensification, to step up the speed of economic structural readjustment, and to improve people's living standards. This places even greater demands on us for variety and quality in our export goods. Under these circumstances, even though competition does not intensify, if our export products do not improve in quality and we do not replace older products with newer ones, we will be eliminated by others from the market. If we do not promptly change the management style in our enterprises, banks, and insurance companies, we essentially will be unable to establish a foothold. This constitutes a fundamental challenge to our economic and managerial standards, and we have to focus our attention on dealing with it. (2) Owing to the following two factors, this challenge has become even more acute. First, the formation of blocs has greatly increased scientific and technical cooperation among member nations. The disparity in the level of scientific and technical development between developed countries and developing countries will, because of this, widen even further. Second, intensified competition is a threat to our export products. (3) The product mix and quality of goods exported by Greece, Spain, and Portugal to the EC and by Mexico to the United States and Canada are similar to China's. These countries also lack capital and technology. In competing for EC and North American markets, capital, and technology, we are at a disadvantage. To realize the plan to unify Europe, West Europe is supplying East Europe with increased aid.

What merits our attention is that, in comparison, the challenges are more important than the opportunities. The trend to form blocs presents us with severe substantive challenges.

For these reasons, we should:

1. Improve our surveys and studies. In the past, laws governing tariffs and nontariffs imposed by countries were relatively stable. At present, trade laws of those regions participating in economic blocs are in a state of constant adjustment. If we do not understand the EC's new unified technical standards and do not adapt our export production accordingly, it will be impossible to penetrate the European market with our products.

To do a good job in conducting surveys and studies, we suggest that leading officials from the international affairs departments in the Ministry of Foreign Affairs and in the Ministry of Foreign Economic Relations and Trade coordinate the activities of their domestic and foreign research organizations and their organizations and companies that are posted abroad and that their reports on the situation be promptly circulated to relevant departments. After the EC publicized its plan for a unified market, the U.S. Chamber of Commerce set up an "information office on the 1992 unified market," which was responsible for collecting and studying information concerning the EC and providing its findings to U.S. companies and businesses. We could similarly learn from this and provide interested companies with a paid service.

2. The principle challenge that the trend toward bloc formation presents is that, following the removal of trade barriers between member countries, they will increase their competitiveness and economic activity. With improvement in the international situation, China can continue to strive in a period of peaceful construction. However, from now on, European, North American, and Asia-Pacific markets are going to be fiercely competitive. Political preferences will become less and less common. The international environment of the nineties will be marked by the rigorous challenges of peacetime. An international environment of this kind requires that we do what is needed to step up the pace of economic reform so that enterprises and companies will firmly acquire a competitive spirit.

3. We should fully exploit all our advantages to take concerted action toward our foreign counterparts. Companies and businesses in developed capitalist countries are stepping up their concerted actions and mergers in order to cope with the trend to form blocs. During the first half of 1990, the total volume of mergers involving West European businesses came to \$38 billion. From now on, competition on the world market will be represented even more by monopolistic competition between monopolistic blocs. China has a large number of small-scale export enterprises. They each go their own way, presenting many different faces aboard, competing with each other, and undermining each other. This makes it impossible to cope with this type of change. We have to take concerted action to oppose concerted action and use monopoly to oppose monopoly.

4. Prior to the EC expanded market and the North American free trade zone coming into existence, we should enter these two expanded markets. After plans were announced

to form the expanded market, the United States and Japan adopted policies of intensified investment in the EC and focused on acting in concert with local firms. Although modern businesses are commonly developing in the direction of internationalized operations, at present the large majority of China's enterprises still have not made foreign investments nor do they have international operations. However, if we are to cope with the trend to form bloc, we must single out for our support enterprises which already have foreign operations or generally have foreign operations. We must formulate strategies and measures pertaining to foreign operations and gradually establish factories or put into operation branch organizations abroad. According to the pertinent provisions on the expanded market, any locally registered bank which has been approved for establishment by the administrative authorities of a member country can freely establish branch offices in other member countries and can engage in all permitted financial operations. Financial and insurance offices of the Bank of China should immediately draw up development programs for West Europe and other regions and strive to put them into effect before the end of 1992.

5. The global trend to form economic blocs will increase diversification of international reserves. We must constantly adjust the currency mix of our country's foreign reserves and appropriately increase imports but without, however, repeating the "shock use of foreign exchange" that occurred in the past. This must be done as a ratio of the foreign exchange reserves of countries with which China conducts trade to important international reserve currencies.

6. We must both strive to win new opportunities to enter the U.S., European, and Japanese markets and also sum up those rights which we have but have not fully utilized in order to take greater advantage of existing quota systems and general preference systems. With respect to general preferences, China only makes use of 35-40 percent of its export quota of farm products to West Europe. Other developing countries on an average utilize 60 percent of theirs.

7. With the trend toward bloc formation, the United States, Europe, and Japan will be increasing their cooperation and coordination. This will make the competition for markets even greater. We must make a careful study of their relationships.

8. We made our position known on participation at the ministerial conference on economic cooperation for the Asia-Pacific region. Our purpose is to encourage economic cooperation in the Asia-Pacific region. It is not to establish an Asia-Pacific economic bloc or to make preparations for one. We must make every effort to fully implement this aim. Like the official policy decision made at the conference, we can adopt the "participating nation" principle as appended to GATT at the Tokyo round, that is, relevant decisions are valid only for countries willing to participate and which have signed the relevant decisions or agreements.

POPULATION

Commentary on Shenzhen's Population Control

91CE0791A Shenzhen SHENZHEN TEQU BAO
in Chinese 18 Aug 91 p 1

[Commentary: "Make Great Efforts To Control Population Growth"]

[Text] Last month's Shenzhen City Work Conference pointed out forcefully that effectively controlling excessive population growth is an urgent matter facing us that will brook no delay. Just as with scientific and technical progress, how the problem of controlling population growth is resolved is extremely important to whether or not the economic zone can accomplish its development strategy.

Although Shenzhen's work on family planning has achieved some success, last year our rates of natural population increase, birth rate and planned childbirth all exceeded the standards set by the province. The population situation remains rather grim, and there are still many difficulties and problems. First, the proportion of people of child-bearing age is large, and account for one-fourth of Shenzhen's population, right at the peak period of childbearing. This indicates that 20 years from now Shenzhen will have an even greater population peak. In the next century, the zone's economic and social development will doubtless be hampered by a heavy population burden. Second, there is the pressure of an excessively high mechanical increase in population. Statistics show that, over the last 10 years, average annual population growth has exceeded 15 percent. At that rate Shenzhen's population will balloon to 10 million by the end of this century. The excessive mechanical increase in population will carry with it a series of social and economic problems. Third, more than 1.3 million outsiders are living temporarily in Shenzhen. These people are scattered, are mobile and are indifferent to planned childbirth. Fourth, family planning work is backward in the outlying mountainous areas and remote villages. Therefore, we must have a clear understanding of the city's population situation. Leaders at all levels must raise public consciousness of family planning and population control and make strenuous efforts to get a grip on the problem.

The key to doing good family planning work and effectively controlling population growth lies in leadership. Cadres in leadership positions at all levels must first deepen their familiarity with family planning work. General Secretary Jiang Zemin points out that, right now China's population situation is such that "the Chinese people are in a dangerous time." It is from this perspective that we must understand the pressing importance of restraining excess population growth. There must be a feeling of crisis and urgency. We must overcome the one-sided views and short-sighted behavior of some comrades who only stress economic problems and ignore population control. We must overcome laxity and the fear that family planning work will be difficult. Second, we must improve and perfect the system of responsibility for

population goals. Those in charge, at all levels, in both the party and the government, must address the problem personally and assume overall responsibility. If leading cadres set a good example, serving as a model for the masses, then they can bring about the smooth accomplishment of various goals.

Leaders at all levels must also address the points of main importance and attack the points of difficulty. For some time to come, Shenzhen's main concerns and difficulties will continue to be the many rural villages, the transient population, and residents of high-rise dwellings. The principal targets of the work are rural families with two daughters and urban families with one daughter.

We must establish a corps of family planning workers who are correct in thought, upright in behavior and clear in their understanding of the task in order to perfect the family planning service network in districts (counties), towns, and villages. We must be strict about dispensing rewards and punishments according to policies and regulations, intensify propaganda and education work, and improve the quality of service, so that family planning gradually becomes instinctive behavior among the masses. At the same time, we must give priority to family planning in allocation of human, material and financial resources, and absolutely guarantee the necessary funds. To effectively restrain Shenzhen's mechanical increase in population, we must also do a lot of complex and difficult work, including further strengthening the unified leadership of population management work in the city, establishing robust population management organizations, perfecting the planning and management system, continue reform of the labor and employment system, and so on. As for those who practice fraud to pad their payrolls with cronies, who meet residency standards by trickery, or who take more than their share of allowed hiring, we must seek them out and deal with them according to the law.

Controlling population growth is an enormous social project. We must take a comprehensive approach, relying on unity and cooperation to deal with every aspect of the problem. All government departments and social units must coordinate closely, work together and take responsibility jointly. Practice has proven, Shenzhen's policy of "the precinct is the main thing, all family planning offices have the same responsibility, the precincts and the offices must coordinate their efforts, whoever is in charge is responsible" is an effective policy and must be insisted upon. At the same time, we must organically link family planning work with controlling mechanical population increase, taking a double-barreled approach. We cannot overlook one in favor of the other.

Besides doing a good job of family planning and controlling population growth, we must also do a lot of penetrating and painstaking work. In rural areas we must establish a complete social insurance system so that families that have only daughters have no future fears. In the city, we must improve management of housing registration, and insist on sending back undocumented persons. We cannot allow any corner of the city to become a

sanctuary for them. To sum up, we must aggressively create the necessary conditions so that Shenzhen's work in family planning and population control can become steadily more consistent and systematic.

Carrying out family planning and strictly controlling population growth are matters of concern to Shenzhen's entire economic and social development situation. Although this work is difficult and many-faceted, if leading cadres at all levels take it with real seriousness, truly strengthen leadership, and set to work with the same enthusiasm and determination that they bring to economic work, then we can certainly achieve even greater accomplishments.

TRANSPORTATION

Overseas Ship Orders Reach Record

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17 Sep 91 p 1*

[By staff reporter Chang Weimin]

[Text] Chinese shipbuilders revealed yesterday that they have this year won a solid share of the world market as their celebration of the Gulf crisis ebbs and the marine arena flourishes again.

The country's shipping sector, which had been worried about the after-effect of the Gulf crisis, has been encouraged by the arrival of a record volume of new ship orders from overseas clients.

An official from the China State Shipbuilding Corporation (CSSC) said overseas orders for vessels have come to 430,000 dwt (dead weight tons) so far this year.

The official also revealed that more contracts would be signed with overseas shipping companies and orders for 200,000-300,000 dwt of vessels would come in the remaining months of this year.

That means CSSC will earn \$300 million of foreign exchange from ship exports—\$100 million up on last year.

Also, CSSC has never before received overseas orders for so many dwt of vessels by this time of the year.

The Dalian New Shipyard in Liaoning Province, an affiliate to the CSSC, signed contracts with the Exmar company of Belgium to build two 150,000-dwt bulk carriers early last month. This makes it the largest order ever received by Chinese shipyards, and is seen as a new step in the development of China's marine engineering.

The Dalian New Shipyard, one of China's largest shipbuilders, has the capacity to build 200,000-dwt vessels.

Chinese marine engineers whose previous largest project was a 98,000-dwt oil tanker are to design the carriers, while the Dalian Marine Diesel Engine Plant will provide the main equipment, including engines and power generators.

The carriers are to be handed over in the middle of the next year and by the end of 1993.

CSSC officials boasted of their stable business ties with overseas clients and successes in coaxing more business, saying the Chinese would benefit from the world market that has bounced back from the effects of the Gulf crisis.

They said that serious competition in the world arena challenged Chinese shipbuilders to continuously up-grade techniques, shorten berth periods and improve service and product quality.

Analysts paid attention to efforts the CSSC plants have made the determination they have shown in winning larger shares of the world market.

Zhang Shou, CSSC's president, announced that his corporation expects to receive orders from overseas for 200,000-dwt vessels.

The CSSC has also received orders from domestic companies for vessels totalling 580,000 dwt so far this year.

"We've never received domestic orders of such a scale by this time of a year before," Zhang Zhaoqi, a spokesman for the CSSC, said.

The CSSC received orders for vessels totalling more than 3 million dwt by the end of last year. That means that with the orders received this year, the CSSC's large shipyards will have their building berths full between now and the year 1993.

AGRICULTURE

Views on Reform of Agricultural Price System

91CM0678A Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 6, 20 Jun 91 pp 53-56

[Article by Sun Shengli (1327 0524 0448): "A Summary of the Discussions on the Problems of China's Agricultural Price Reform." The author is affiliated with the Ministry of Finance's Financial Science Institute.]

[Text] Agricultural price reform has reached its critical stage today. How to recognize and resolve the problems encountered during the reform has become the focus of recent discussions. I have summarized the discussions in economics circles below:

I. On the Issue of the Price Scissors Between Industrial and Agricultural Product Prices

As yet theoreticians still do not agree on the questions of whether the price scissors between industrial and agricultural products have widened or narrowed and whether the peasants have benefitted from or have been hurt by the price reforms.

Some comrades believe that the old price ratio between industrial and agricultural products has been restored during the period 1985-1989, and the price scissors have widened. The peasants have slowly lost everything they had gained from the earlier price readjustments. Reforms since 1985 not only have not brought the peasants any concrete benefit but have actually hurt their interests.¹

Others believe that the improper price ratio between industrial and agricultural products is no longer just single-pronged but has become a two-prong problem, that is, besides the price scissors caused by the unequal exchange between industrial and agricultural products, there is also the price scissors between agricultural products and rural industrial products, resulting in price differences between industrial and agricultural products within the rural areas.²

There are some who maintain that: (a) The price scissors between industrial and agricultural products have been narrowing since the founding of the PRC. In the last 10 years, both the rate and the magnitude by which the gap is closing have been fairly significant. (b) The narrowing of the price scissors between industrial and agricultural products has brought substantial real benefits to the peasants. Between 1979 and 1988, higher agricultural procurement price has increased the peasants' income by more than 600 billion yuan while the amount of taxes they pay to the state has remained basically unchanged. Furthermore, the narrowing of the price scissors has promoted the development of agricultural production. It is estimated that for every 10 percent increase in agricultural product price, the composite increase in agricultural production for each year from 1985 to 1988 has been 1.37 percent, 1.44 percent, 1.45 percent, and 1.56 percent, respectively. (c) From the point of production, the price scissors between industrial and agricultural products still exist, but the gap is not very wide. From the point of allocation, the price scissors in their proper sense no longer exist. Thus, we should not try to further narrow the price difference between agricultural and industrial products under the Eighth Five-Year Plan. In addition, under the current conditions, to further raise the price of agricultural products and narrow the price scissors will not do much to promote agricultural development, and for the planting industry, especially, it will serve no purpose at all.³

Some other comrades feel that overall, the price scissors have continued to narrow but at a decreasing rate, and in the last year or so, the price scissors have again widened somewhat. As for whether the peasants have benefited from or been hurt by these prices, it is believed that overall, they have profited by them, but their net marginal income as a percentage of the total marginal income has been declining each year. Thus, on the whole, we cannot allow the price scissors to widen any more but should continue to reduce the difference, so that the price ratio between industrial and agricultural products will skew to the side that will facilitate agricultural development. In determining prices, we should let agricultural product price increase faster than the retail price of rural industrial products.⁴

II. The Problem of Agricultural Product Price Subsidy

The deepening of the agricultural product price reform has increased the government's financial expenditure and has exacerbated the state's financial problems in recent years. Between 1978 and 1989, the state spent a total of 207.73 billion yuan to subsidize grain, cotton, oil, and meat prices. Over a 10-year period, the government's subsidies have increased by 35.92 billion yuan, approximately 20

percent of the increase in the state's financial revenues. The state's expenditure on price-related subsidies has been increasing as the agricultural product price reform deepens. During the first phase of the agricultural product price reform, the state spent 84 billion yuan on inverted price subsidies, but the subsidies soared to 123.7 billion yuan during the second phase⁵. Furthermore, the subsidies are poorly structured: Agricultural price subsidy for the peasants fell from 28.2 percent in 1978 to 3.9 percent in 1987 while subsidy for urban residents rose from 71.8 percent to 96.1 percent during the same period. This kind of subsidy structure not only does not stimulate agricultural production but actually encourages the consumption of agricultural products and creates a vicious cycle of chronic shortage of subsidized agricultural products.⁶

How should we handle the agricultural price subsidy problem? Should we try to get rid of the burden? Some comrades point out that agricultural price subsidy has its reasonable and important side, because there are unique reasons in China's agriculture which warrant this kind of subsidy. First, there is serious hidden unemployment in the rural labor force, and it is very difficult to shift the unemployed to the other sectors. To solve this problem, the government should provide universal subsidy to agriculture. Second, we cannot rely solely on the strength of the rural areas to reinforce the agricultural infrastructure and to upgrade and transform agriculture. The state must subsidize them. Three, the state should also provide subsidy to vigorously promote agricultural science and technology.⁷

Some comrades agree with the above viewpoint. They believe that agricultural price subsidy is relevant both to the traditional economic system and to the commodity economy, that such subsidy is the inevitable result of the development of the commodity economy. The development of China's agricultural economy and its accompanying price subsidy system are under the dual influence of the changing economic system and the general law of development of the commodity economy. It not only demonstrates the unique characteristics of China's existing pricing system but also reflects the world-oriented industrial structure that characterizes the rural economy as it advances toward the commodity economy. Thus, despite the presence of some problems in the existing agricultural price subsidy system, and although it adds to the state's financial burden, we must not hope to rid ourselves of this burden yet; instead we should try to find a better subsidy format.⁸

To solve the agricultural price subsidy problems, we can consider the following important countermeasures:

Countermeasure number one: It is believed that two constraints must be met in order to set a reasonable quantitative limit to the agricultural price subsidy: 1) the constraint of the economic operating mechanisms; 2) the budget constraint. In the future, instead of the consumers, the agricultural price subsidy should mainly target the producers. First, we should abolish the subsidy on items which do not have much of an impact on the urban population's

everyday life. Second, we should stop the rationing of agricultural products which make up only a small percentage of the urban residents' actual consumption. Instead, we should decontrol their market prices and eliminate the inverted purchase-sale price subsidy of those products. Third, for foodstuff which the rationed amount actually exceeds the residents' consumption, we can check and reduce the ration and implement the double-track pricing system at the same time.⁹

Countermeasure number two: First, we should adopt various measures to control the cost increase in agricultural production as a way to ease the pressure on raising the agricultural procurement price. Second, we should scale back the agricultural price subsidy and take steps to reduce grain price subsidy and gradually decontrol the price of grain for industrial use. We should gradually eliminate the supply of "resold grain" to the rural areas at parity price and reduce the supply of parity-price foodstuff. Fourth, we should target the problem of poor subsidy method by gradually changing in-kind subsidy into cash subsidy and then solve the problem step by step by restructuring the wage system.¹⁰

Countermeasure number three: First, in conjunction with the readjustment of the wage system, we should gradually reduce the subsidy for operating loss. Second, we should stop subsidizing the vegetable growers, tree growers, and fishermen who can sell their own products at market prices. Instead of subsidizing all consumers in the cities and towns, we should subsidize only the wage-earners and the poor. Third, we should set up an agricultural product price regulation fund. Fourth, we should set parameters for the subsidy and set a limit to the amount of subsidy. We can take the following relationships into consideration: The amount of agricultural subsidy as a percentage of the government's revenues; the amount of subsidy as a percentage of fiscal expenditure; the amount of subsidy as a percentage of the GVAO [Gross value of Agricultural Output]. Lastly, we should subsidize only those links that are economically efficient and socially beneficial.¹¹

III. On the Relationship Between Planning and the Market During Agricultural Price Reform

The main problems that plague the relationship between planning and the market during the agricultural price reform are: (a) Planned regulation is divorced from and is sometimes pitched against market regulation. (b) The way the relationship between the two is handled is often one-sided and taken to be absolute. Too much emphasis is put on the market mechanisms while the planned mechanisms are being ignored, and little thought is given to coordinating the two. (c) The manipulation of the planned regulation and market regulation mechanisms is not accompanied by the proper measures and rules, and as a result, there is chaos and confusion.

The following are viewpoints on how to solve these problems and integrate the planned and market regulations effectively:

Some comrades suggest that the integration of planned regulation and market regulation should be organic and

should permeate every aspect until it covers the entire society. Planned prices should be based on the law of value, and market regulation price should also meet the needs of planning. In comparison, planning should play the more important role. The proportion of market regulation should be based on planning and should not be haphazard.¹²

Some comrades, on the other hand, believe that under China's present economic conditions, neither its planned mechanisms nor its market mechanisms are perfect, because they lack the scope and the conditions necessary to give full play to their respective effects and to their internal functions, and therefore we cannot simply merge the two and apply them to the whole society. Instead, we can only fit them together piece by piece mechanically, and create an elementary form of integration of planning and the market. The merging of planning and the market to envelop the whole society is an advanced form of integration of planning and the market, and it is the goal of our price reform.¹³

Some comrades suggest that in order to effectively integrate the two, we must accomplish the following: First, we must create the conditions for integrating planned regulation and market regulation: a) We must sort out the prices and change the current situation where both planned and market prices are distorted and correct the unreasonable price ratio between industrial and agricultural products. We should make reasonable prices the effective tool of planned and market regulations. b) We should accelerate market development and perfect the market mechanisms. c) We must strengthen the macro regulation and control mechanisms and raise the level of macro regulation and control. Second, we should perfect the double-track system and gradually deepen the market-oriented agricultural price reform: a) We should raise the track of planned prices and reduce the price difference between the two [planned and market] tracks. The price difference should not exceed 30-50 percent. b) we should perfect the management of the double-track pricing system. c) we must further clarify the double-track system and re-determine the types of products to be put under the double-track system. d) Different types of products should be integrated at different levels in different ways.¹⁴

Other comrades suggest that to integrate the two effectively, first, there must be an agricultural product price system that reflects the characteristics of agricultural production. To a certain extent, planned mandatory or guiding prices should still play a role in the case of major agricultural products which have an impact on the nation's overall condition. But for most agricultural products, we should let market regulation set prices. Second, the extent of integration of planning and the market for important agricultural products which are controlled by planned prices should also vary. Grain prices should not be completely decontrolled for some time to come; planned prices should play a relatively large role. The supply and the price of edible oil may be regulated by the market during the

latter part of the Eighth Five-Year Plan. Cotton price should be put under complete control; there should be no double-tracking pricing.¹⁵

IV. The Relationship Between Agricultural Price Reform and Agricultural Development, Inflation, and Other Problems

On the relationship between agricultural price reform and agricultural development, some comrades believe that price is the main obstacle to further agricultural development. The serious distortion between the value and the price of agricultural products and the fact that those who cultivate the land do not make the average profit of others are the deepest economic root cause of stalled agricultural development. Thus, under the new agricultural planned economic system, especially in the broad use of economic levers, we must make agricultural product price reform the breakthrough point, and we must completely straighten out the price relationship between agricultural products and products from other sectors and among different agricultural products. Eventually, we should implement a single-track system where agricultural product prices are determined by the law of economic development itself and set up and perfect the mechanisms which allow planting to become as profitable as the secondary and tertiary industries.¹⁶

Some comrades on the other hand believe that prices play a very small role in determining agricultural production or regulating the supply. First, the scarcity of land and the accompanying diminishing return of marginal investment in agriculture have already decided that even with the most attractive agricultural product prices, it will still be impossible to increase agricultural production substantially within a short period of time. Second, in the wake of a substantial increase in agricultural product prices, the price of agricultural capital goods supplied by the industrial department will necessarily go up, and adding the fact that agricultural production is constrained by the law of diminishing return, it will ultimately offset any benefit higher agricultural product prices may bring to the peasants, and this in turn will limit agricultural production. Third, even if we raise the procurement price of foodstuff unconditionally to the level that reflects the social value of foodstuff, we still cannot radically solve the problem that grain production is a relatively unprofitable business. Fourth, raising the price of agricultural products will not necessarily raise the agricultural production rate by much. Fifth, a substantial increase in agricultural product procurement price will surely exacerbate inflation and will restore the old price ratio, but at a even higher level. Last, a substantial increase in agricultural product price will further delay the shift of the surplus agricultural labor force to the nonagricultural sector.¹⁷

As for the relationship between agricultural product price and inflation, one opinion suggests the agricultural price reform is implemented basically under the condition in which the government must protect the urban consumers and voluntarily give up the profit tax of nonagricultural enterprises at the same time. This means the higher-priced agricultural products must be paid for by deficit-spending

or by increasing the money supply. As a result, while the reform of agricultural product price is being deepened, a mild case of inflation is being turned into full-blown inflation.¹⁸

Another opinion suggests that raising the price of agricultural products may lead to an increase in the money supply, but because it is a self-compensated kind of currency issuance, it is sufficiently backed by real commodities. In addition, the increased velocity of money will absorb a part of the new issuance, so that less of the newly added currency will actually contribute to inflation. The combined effect can be measured by agricultural products' price elasticity with respect to the inflation rate. That elasticity was 0.02 in 1979 and remained at 0.01 from 1980 to 1987, which shows that although the change in agricultural product prices has a definite effect on the overall price level, its impact on inflation is minimal.¹⁹

On the issue of decontrolling agricultural product prices, most comrades agree that agricultural price reform should forge ahead in steady steps. The main idea is, we should not decontrol agricultural product prices completely, nor should there be any more drastic readjustment of the agricultural product price level. This is because: (a) China has a large population but little cultivated land, which means there will be a chronic relative shortage of the major agricultural products. (b) The real rate of commercialization of agricultural products is very low in China. If agricultural product price is completely decontrolled, it will be very difficult to stabilize the supply of agricultural products. It will be very risky. (c) If we rely only on market regulation, there will be cyclical fluctuations in agricultural production. This not only will disrupt the internal price relationship among agricultural products but will cause the general price level in the market to fluctuate. (d) While the format of pricing agricultural products is being changed in this country, the necessary conditions are absent to warrant complete price decontrol: First, the macro regulation and control measures are ineffective; second, the market is not yet fully developed; third, the relay of market signal is inefficient and unreliable. (e) Judging by the state's, enterprises', and individuals' ability to withstand more changes, agricultural product prices should not be drastically readjusted again. (f) An increase of grain and cotton prices will do very little to stimulate grain and cotton production. In the decade between 1978 and 1988, grain price in China continued to climb, but the grain seeding area continued to shrink during the same period. Compared to 1978, grain price has increased by 174.4 percent in 1988, but grain seeding area has decreased by 8.8 percent. Thus, China's agricultural development is constrained not by prices but by the small-scale operations and by the low labor productivity rate.²⁰

V. Ideas on How To Deepen the Agricultural Product Price Reform During the Eighth Five-Year Plan Period

The first idea: (1) During the Eighth Five-Year Plan period, we should gradually raise the procurement price of agricultural products, especially grain, and price all crops proportional to the price of grain. At the end of the Eighth Five-Year Plan period, the grain procurement price may

be brought up to the current market level, and the difference between list and market prices should be minimized. (2) We should tie the change in procurement price to the change in sale price and gradually solve the problem of inverted relations between the purchase and sale prices of agricultural products and reduce the government's financial burden. In the first two years of the Eighth Five-Year Plan, using the approach of running up no new debts and paying no old debts, we can raise the procurement price and the sale price at the same time. After 1993, we will deal with the old debts left behind by the inverted relations between purchase and sale prices, and by 1995, purchase price should basically equal sale price, and we may even allow a small profit. (3) In accordance with the principle of integrating the planned economy with market regulation, we should gradually set up a flexible agricultural product price management system in which the state's guiding prices play the lead role. (4) We should separate prices from taxes and smooth out the price-tax relations in agricultural products: (a) Agricultural product tax should be separated from the state's fixed-quota contract procurement and should be determined independent of the contractual purchases to make agricultural product tax an overt tax. (b) While raising the price of agricultural products, we should also raise the agricultural tax rate. (c) We should further improve the method of levying taxes on special agricultural and forest products and use the tax lever to balance the profit difference created by the unequal price relations among agricultural products. (5) We should restructure the agricultural product price subsidy system. (6) We should control the price increase in the rural areas and further perfect the management of agricultural means of production and stabilize the cost of agricultural production.²¹

The second idea: 1) At this stage and within the foreseeable future, we should retain the double-track grain pricing system, but we must gradually reduce the amount of fixed-quota contract procurement, expand the market regulation portion, and gradually reduce the supply of parity-price grain. The policy of using parity price grain as a form of subsidy should be revised as warranted by different situations. We should change the "three-linked" subsidy from a covert subsidy into an overt subsidy. While cutting back on fixed-quota contract procurements, we should set up a real contractual procurement system which lives up to its name. Instead of handing down the contract procurement tasks vertically from top to bottom, we should have lateral fixed-quota purchase contracts. 2) We should determine a regional protection price for important agricultural products and handle the internal price ratio between agricultural products properly: First, we must set regional agricultural product prices. Second, each region should raise some money on its own to set up a special agricultural product price regulation and control fund to regulate the market price of important agricultural products. Third, instead of making drastic and universal adjustments of agricultural product prices, we should make small, regional adjustments.²²

The third idea: During the Eighth Five-Year Plan period, the goals of agricultural price reform is to set a reasonable

grain price and determine the prices of other agricultural products properly based on the price of grain and solve the problem of improper price ratios between different agricultural products. 1) We should gradually raise the fixed-quota contractual procurement price of grain and reasonably control the price of negotiated purchases. 2) The price of other cash crops should be determined based on the actual price level of grain while giving consideration to the historical price ratios, the cost-benefit situation, and the supply-demand situation. 3) We should further rectify and improve the price order in the procurement link and the circulation link and gradually eliminate the various surcharges to the set prices, the price subsidies, and various linkage policies. 4) In principle, we should not further reduce the types of products under the state's price management system during the Eighth Five-Year Plan period. The power to manage the price of specific agricultural products which have broad ramifications and serious impact should be reasonably centralized.²³

Footnotes

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Official Comments on Grain Reserve System

92CE0001A Beijing JINGJI CANKAO BAO in Chinese
1 Aug 91 p 2

[Article by Wang Peixian (3769 0160 6343): "Setting up a Multi-Tiered Grain Reserve System, an Interview with Xu Zongren (6079 1350 0088), Deputy Head of the State Grain Reserve Bureau"]

[Text] "This summer a number of provinces and cities in eastern China suffered floods, and the country used

250,000 tons of wheat for relief. Although the amount of disaster relief grain was small, the country's stored grain reserve is large, and gives the people who have suffered the disaster some peace of mind. With grain in the hand, people's minds are at ease; thus this year those who have been through disasters are at ease."

"If in a very short time market grain prices soared due to the disaster, the state could bring out some grain, and use it to keep prices down, stabilize the market, and ensure the grain supply."

These words were spoken by State Grain Reserve Bureau Deputy Head Xu Zongren during a recent interview with this reporter.

The state special grain reserve system was established by a decree of the State Council in 1990. The State Grain Reserve Bureau was established at the same time to unify management of the state grain and edible oil reserves. On the basis of the 1989 increase in grain output, grain production in 1990 also achieved a bumper harvest. The grain situation has improved, and market grain prices have dropped significantly in contrast to the continuous price increases of the last several years, and in a large number of regions, farmers were "having difficulty selling grain." To maintain farmer enthusiasm for growing grain, and prevent "low grain prices hurting farmers," the State Council decreed that beginning with summer grain purchasing, to raise the market price, it would set a protective price, begin unlimited purchasing of farmer's surplus grain, and set up a special state grain reserve. This approach solved the majority of problems farmers in grain producing regions were having with "difficulty selling grain," and stopped the slide in market grain prices.

Xu Zongren said that the specified amount of the grain reserve held by the state could change according to the grain situation and market conditions, and the state would use grain reserves at a suitable time to regulate the market and imports and exports in order to deal with various types of unexpected conditions and natural disasters. In facing this year's flood disasters, the state not only transferred disaster relief grain, but also provided more than 10,000 tons of early season rice seeds for use in supporting restoration of production in the stricken areas. The establishment of a special grain reserve is clearly of major significance.

But reliance only on a state grain reserve is insufficient. We should gradually establish a multi-tiered grain reserve system with the state reserve as the core, that is, state reserves, local reserves and grain storage among the people.

Xu Zongren said that China is a country of 1.1 billion people. In solving the grain problem it is necessary to be strictly self-reliant, based on internal policies. The effect of natural factors on grain production is very large, favorable weather means abundance, and a natural disaster means a poor harvest. There are often imbalances in bad and good harvests from year to year, season to season and region to region. Some remote regions have poor transport facilities,

and if the masses do not have a definite grain reserve in hand, relying only on the state allocations, this is equivalent to "aid is too slow in coming to be of any help."

Local reserves include provincial reserves, county, and village (town) reserves. Such grain deficient provinces as Shanxi, Fujian, Yunnan, and Shaanxi are already paying attention to this problem, and have established local reserves. Grain producing provinces such as Heilongjiang and Sichuan have also established local reserves. Grain is an important commodity which is related to the national economy and the people's livelihood, and no matter whether it is a grain producing region or a grain consuming region, all have a macroscopic readjustment problem. Producing regions that establish local reserves is both useful in solving the farmers "difficulty selling grain," and strengthens the ability of local regions to handle grain emergencies. Purchasing regions that establish reserves is primarily useful in ensuring a timely grain supply, and giving people peace of mind.

Xu Zongren stated that promoting storage of grain among the people requires mobilizing and encouraging large numbers of peasants to store some grain. China has 900 million peasants, if each peasant household stored a three month grain ration, overall the country would have tens of billions of kilograms of grain stored in the hands of the people. This would be both useful in reducing the pressure on state grain reserves, and useful for peasants to make production and living arrangements.

Guangdong Completes Transplanting of Late Rice Crop

*BNF92P30005 Guangzhou NANFANG RIBAO in Chinese
16 Aug 91 p 1*

[Excerpts] Guangdong's cadres and peoples everywhere have overcome the hardships brought on by typhoons seven and eight and finished transplanting the late rice crop. By 14 August, 2.274 million mu of rice had been transplanted throughout the province—93 percent of the planned area. [passage omitted]

During this year's early planting, all parts of Guangdong suffered severe drought, and the planted area of early rice was 1 million mu less than normal. Furthermore, the summer harvest saw the onslaught of typhoons seven and eight, which reduced the output of the early crop. [passage omitted]

Bumper Fruit Harvest Expected This Year

*OW1310081991 Beijing XINHUA in English
0734 GMT 13 Oct 91*

[Text] Beijing, October 13 (XINHUA)—Despite different natural disasters that hit various localities this year, China is expecting to have a total fruit output of about 20 million tons in the year, a 6.6 percent increase over that of last year, according to today's PEOPLE'S DAILY.

The total fruit output was 18.76 million tons last year, 170 percent more than the year of 1979.

A current national meeting on fruit production, supply and marketing held in Shandong Province has attributed the growth to improved fruit marketing.

Fruit supply and marketing agencies and companies in various provinces and cities have made efforts to improve their management and open more business forms to expand the market. They have set up more than 200 wholesale markets in the country.

Shandong, Hebei, Liaoning, Sichuan, Hunan and Zhejiang, main fruit producers of the country, have also provided good service for fruit farmers in commercial information, technology, fund and materials.

Tibet Completes Grassland Resources Survey

*HK0710060791 Beijing RENMIN RIBAO in Chinese
30 Sep 91 p 2*

[By reporter Ren Zhaoxin (0117 0340 2946): "Tibet Completes Survey of Grassland Resources"]

[Text] It was recently announced that the seven-year "Tibet Autonomous Region Grassland Resources Survey" had been completed, and the survey results had been checked and accepted by the Animal Farming and Veterinary Medicine Department and the Natural Resources Comprehensive Assessment Committee of the Chinese Academy of Sciences.

The survey was organized and coordinated by the Agriculture Commission of Tibet Autonomous Region, and was an important component part of the national unified survey of grassland resources. This was also the first comprehensive and thorough survey of the Tibetan grasslands since the founding of the PRC. Now, the types, distribution, quantity, quality, and utilization conditions of the grasslands in Tibet have been discovered through the survey. An integrated data bank on the grassland resources in Tibet has been built up for the purpose of properly utilizing, developing, and protecting the grasslands. This also provides a scientific basis for ensuring the steady development of animal farming. This is of great economic significance for Tibet, in which animal husbandry constitutes the main body of the economy.

Foreign Labor Reemerges as Focal Issue

91CE0714A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 30,
29 Jul 91 p 30

[Article by Zhang Yi: "The Issue of Importing Foreign Labor Reemerges as the Focus of Attention"]

[Text] Recently, Taiwan's "Executive Yuan" approved importing foreign labor into Taiwan's labor market with regard to 15 occupations in six industries including the textile and construction industries. As a result, the issue of introducing foreign labor has reemerged as a focus of public attention.

Industries and Occupations To Be Benefited

As approved by the "Executive Yuan," the six industries and relevant occupations that may import foreign labor include: (1) the textile industry: dyers, iron-operators; (2) metal-related basic industry: founders, metal melters, holding and shearing device operators; (3) metal products manufacturing industry: metal melters, founders, electro-plating workers, holding and shearing device operators, painters, metal surface polishers; (4) the manufacturing and repair industry for machinery and equipments: founders, electroplating workers, painters, holding and shearing device operators, metal surface polishers; (5) the manufacturing and repairing industry for electric and electronic machinery and equipments: painters, holding and shearing device operators; and (6) building industry: operators and maintenance workers for heavy machinery, welders, masons, form workers, steel bar workers, scaffolding workers, laborers, etc.

According to one source, the principle for determining the industries and occupations that may import foreign labor is: those who suffer from a serious manpower deficiency that affects the industries' existence; important relevant industries needed to maintain Taiwan's industrial policy; jobs that are hard and have difficult working conditions, and the Taiwanese do not want; foreign labor should provide supplementary manpower, instead of substitutive manpower, for Taiwan's labor market.

Widely Welcomed by Business

Two or three months ago, it was reported in Taiwan that the "Labor Commission" would allow the import of foreign labor for some industries; at that time, the news aroused the attention of all sides. This policy has naturally received widespread support from business. The general view is that importing foreign labor to alleviate the pressure of local labor shortage has become the inevitable trend in industrialized countries and areas, and that Taiwan is no exception. However, import does not mean introduction without limit, and there should be overall planning according to the supply and demand of labor in Taiwan. But some officials believe that importing foreign labor will have negative consequences, and is not the way to resolve labor shortage. Some officials believe that in allowing foreign labor to work in Taiwan, the government should examine and consider such principles as the needs of Taiwan's economic development, the impact on industrial

upgrading, protection of people's employment rights and interests, and the sharing of social costs.

It seems that the "Labor Commission's" decision was made after some consideration. Because the "National Association for Industry" put forth the demand for 28,000 foreign workers, the "Labor Commission" disclosed that the number of imported laborers will not exceed 15,000. The reason the "Labor Commission" did not allow business to import too many foreign workers was to prevent foreign workers from presenting too great a shock to the people of Taiwan. At the same time, there are also regulations on the methods of allocating foreign laborers; initially, plants with less than nine workers will not be allocated foreign laborers. Second, it is stipulated that the number of workers that a plant can use should not exceed 20 percent of the total number of plant workers. The "Labor Commission" has repeatedly emphasized that there should be careful consideration of the number of foreign workers, and that it should not wait and seek remedies only after foreign laborers in Taiwan have created negative consequences.

Perhaps, people have already been prepared psychologically for the import of foreign labor, expect a small number of foreign laborers, and rather detailed arrangement and allocation in terms of industries to be covered and the number of workers. Therefore, despite attention from all sides, the response has not been strong.

In fact, there are large numbers of illegal foreign workers in Taiwan. According to estimates of the "Police Administration," the number could exceed 50,000, and these illegal workers will be repatriated. Therefore, relatively speaking, the number of foreign workers will be small.

Taiwan's business welcomes the policy on importing foreign labor. Because some industries have had labor shortages for several years, and have been demanding that the government allow foreign labor imports for a long time, it has been difficult to obtain clear regulations today. Thus, businessmen hope that the government will first allow 15,000 foreign workers, and that another 13,000 will be imported at another time. They also suggest that to resolve the difficulty caused by labor shortages in Taiwan, it is necessary to adopt, as soon as possible, an employment and service law which provides comprehensive norms on business' rights and duties with regard to foreign laborers, as well as the scope of the second-stage expansion of foreign labor imports. Businessmen further emphasize that in allowing the legal introduction of overseas labor, the government should not place a limit on mainland labor, but should legalize the import of mainland labor, in view of the adaptability of mainland labor and solve the issue of illegal entry of mainlanders.

The Feasibility of Importing Mainland Labor

The issue of importing mainland labor seems to be the most attention-arousing and controversial among the issues concerning the policy on importing outside labor.

Recently, after hearing the "Labor Commission" chairman Zhao Shoubo's report on the policy of importing foreign

labor, the president of the "Executive Yuan" Hao Bocun especially requested that the "Mainland Commission" and the "Labor Commission" conduct research and comparative analysis on the costs and benefits of importing mainland labor as opposed to foreign labor to provide a policy reference for the government on future labor imports.

Some time ago, the "Labor Commission" emphasized that legal imports of mainland labor could have a clear basis only after completion of legislation on "Regulations on Relations Between People on Both Sides of the Straits," only after the mainland has made a reciprocal move, or after the two sides have established direct mail, transport, and commercial contacts.

Afterwards, the secretary general of the Central Standing Committee of the KMT Song Chuyu pointed out that with regard to Taiwan's foreign labor policy, it would be better to seriously consider importing mainland labor, rather than labor from Southeast Asia. He also said that they can adopt a rotational method, each year 10,000 mainland workers, in several contingents, would come to Taiwan. In this way more mainland people would understand the present situation on Taiwan, and improve their living standards.

However, most industrial organizations, labor organizations and "legislators" of the DPP have reservation or oppose the import of mainland labor. They believe that although mainland labor imports have low economic cost, the political risks are too high. If the government allows the import of mainland labor, it will be necessary to have concentrated employment so as to facilitate management.

Although Taiwan's officials have repeatedly emphasized that Hao Bocun's instruction on studying the costs and benefits of allowing mainland labor does not mean they will allow it, and believe that at the present stage the possibility of allowing mainland labor is slight. Hao Bocun's changing the term "foreign labor" into "outside labor" is considered to have paved the way for importing mainland labor and augurs allowing mainland workers to work in Taiwan.

Investors Encounter Mainland Financial Problems

91CE0794B Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 34,
26 Aug 91 p 36

[Article by Lu Ming (6424 2494): "What Are the Financial Problems Encountered by Taiwan Firms Investing in the Mainland?"]

[Text] In recent years, the number and size of investments by Taiwanese firms in Mainland China have increased notably. The Taiwanese authorities have announced that as of early April 1991, 2,503 investments in the mainland totaling nearly \$800 million have been registered (not including joint ventures involving Taiwanese and foreign investors). At the same time, transit trade through Hong Kong has also increased, reaching \$4 billion in 1990. The mainland has now replaced Japan as the number two market for Taiwanese exports, second only to the United

States. The investments by Taiwanese firms in the mainland have caused a series of financial problems. This article will use Xiamen as an example to illustrate some of these problems.

Problems With Accommodation of Funds. Currently, when Taiwanese firms invest in the mainland, it is generally a matter of "Hong Kong taking the orders, the mainland providing the goods, and Taiwan providing the funds," so Taiwanese firms generally have funds accommodated abroad and seldom do so within China. As of late May 1991, Xiamen had approved 431 investment projects by Taiwanese firms. The investments covered more than 20 of the 33 major industries, and over 200 Taiwan-invested enterprises are either under construction or have gone into production, but few of them have accommodated funds with Xiamen banks. According to statistics from one specialized bank, only 63 Taiwan-invested enterprises have opened accounts there, and only 10 of them have had loans approved. Both loans and deposits total something over 7 million yuan, so the numbers are apparently still quite limited. The situation is a little better at a few foreign-invested banks (joint ventures), but most of the business still consists of short-term loans for foreign exchange operating funds. However, this does not mean that Taiwan-invested firms will not apply to local banks for loans in the future. As Taiwanese firms become more familiar with the domestic investment climate and relationships between banks and enterprises grow closer, Taiwanese firms may begin to accommodate funds domestically instead of abroad.

The Problem of Loan Sponsorship and Collateral. Banks generally demand collateral or a domestic enterprise to serve as sponsor before they will extend a loan to a Taiwan-invested firm, just as they do with other foreign-invested firms. Legislation in this area, such as the "Fujian Province Loan Collateral Provisions," have been put into effect. However, it is reported that the identification of proper items for collateral has been a tortuous process. According to the provisions, buildings, machinery, equipment, raw materials, jewelry, and negotiable securities can all serve as collateral. However, jewelry and securities are owned by individuals, thus, no enterprise head would use these things as collateral for a loan. The only alternative is to use real estate and capital goods (buildings, machinery) as collateral, but Taiwanese firms all rent any buildings they use for factories instead of building or buying them, so using this type of collateral is not an option. Taiwanese firms and banks all agree that machinery, equipment, and raw materials would be acceptable collateral items, but foreign-invested firms are exempt from customs duties for any equipment, machinery, or raw materials which they "use for their own production," so banks worry that should a dispute arise which goes to court, even if they should recover such collateral, its value to them would be greatly reduced because they would have to pay customs duties on it. It has been impossible to initiate collateral loans for this reason. As for having a domestic enterprise serve as sponsor, these enterprises would not enter lightly into such a commitment because they have no way of knowing how creditworthy a Taiwanese firm is, and Taiwan-invested

enterprises all have few lateral links with other local enterprises. For this reason, it has also been impossible to initiate sponsored loans.

The Problem of Using a Loan for More Than One Purpose. The specialized banks divide their loans into two categories: project loans and operating funds loans, and they place special stress upon "using a specific loan for a specific purpose." Taiwanese and foreign firms are accustomed to using a single loan for various purposes. In the past few years, foreign-invested banks have begun to offer "multipurpose loans," in which a bank loans a certain sum to an enterprise and authorizes its multipurpose use. All foreign-invested firms, including Taiwanese firms, consider this a very convenient method. However, this type of loan is directed generally to state run enterprises and is seldom offered to Taiwan-invested enterprises.

The Problem of Remitting Funds Across the Taiwan Straits. Because there has been no communication across the Taiwan Straits for more than 30 years, it is still impossible to remit funds directly. Taiwan's Huanan Bank and the Hong Kong Chartered Bank began to remit funds indirectly through Hong Kong in May 1990 to see how it would work. By February 1991 they had handled 20-30,000 transactions totalling \$30 million, but analysis reveals that most of the transactions were between private individuals. Furthermore, they took 20 days to clear, which is very inconvenient.

The Problem of Exchanging Taiwanese Currency at Banks. Taiwanese businessmen have been known to enter China carrying cash, but it is still impossible to exchange Taiwanese currency at banks, which has become a big problem.

Problems Regarding the Coordination of Banking Laws. The "Banking Law," the "Law on Bank Management of Foreign Exchange," and the "Bank Tax Law" have not yet been formulated. It has been five years since the "Provisions Regarding Regulation of Foreign-invested Banks and Joint Venture Banks in the Special Economic Zones" went into effect in April 1985. Many of its stipulations are not in step with the current liberalized atmosphere and must be revised.

These problems encountered by Taiwanese firms which invest in the mainland to a certain extent reflect the fact that the investment climate in the mainland must be improved. Based upon interviews with several work units and Taiwan-invested enterprises, this writer has come to the following conclusions:

1. *It must be understand that the business of a bank is to serve the needs of the economy. Banks must adjust themselves to the needs of clients in a timely manner.* It is frequently said that wherever investment goes, there bank service must follow. We should accelerate reform of the domestic banking system in order to meet the needs of Taiwan-invested enterprises.

2. *Foreign-invested banks (joint ventures) must be allowed to "supplement the domestic banking system when necessary."* There are many things specialized banks are unable

to do because of the restrictions of the system. Foreign-invested and joint venture banks should be allowed to carry out these activities on a trial basis. Particularly with regard to foreign exchange loans, foreign-invested and joint venture banks could do a better job of serving as offshore financial institutions. They could accommodate offshore funds to support the development of China's foreign-invested enterprises, including Taiwan-invested enterprises.

3. *We must adopt flexible methods to resolve concrete problems.* Regarding the problem of loan collateral, we could first establish a list of acceptable collateral items in accordance with regulations; later, if a dispute should arise which goes to court, we can take care of it then. As for the requirement of specialized banks that "specific funds be used for a specific purpose," we could make exceptions of Taiwan-invested and foreign-invested enterprises, allowing them to use loans for various purposes "in accordance with international precedent." We could follow the example of the "multipurpose loans" of foreign-invested and joint venture banks. As for the exchange of Taiwanese currency, we could specify a few banks to carry out such exchange on a trial basis, and we could adopt active measures to have this cash transported out of China.

4. *We must perfect the relevant laws and provide a better investment climate.* An ever increasing number of Taiwanese firms are expected to invest in the mainland. There is an increasingly clear need for coordinated banking procedures, so it would be worthwhile to study the issue.

Forum on Trade Relations With PRC

91CE0737A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 32,
12 Aug 91 pp 10-11

[Article by reporters Li Sibo and He Iwen: "What Course Will Economic and Trade Relations Between the Two Sides of the Straits Take in the 1990's?"]

[Text] The three-day academic forum on relations between the two sides of the straits concluded on 8 August at the Yanshan Restaurant in Beijing. This forum was jointly sponsored by the Institute of Taiwan Studies under the Academy of Social Sciences of China, the All-China Federation of Taiwan Compatriots and the Society of Taiwan Studies.

Attending the forum were 124 scholars including 75 mainland scholars, 32 Taiwan scholars and 17 Chinese scholars from the United States, Japan and other regions.

The opening ceremony of the forum was held at the Taiwan Pavilion of the Great Hall of the People. Facing east, the conference hall was flanked by screens and paintings that said: "Cheng Chenggong recovered Taiwan" and "Taiwan has been China's sacred territory since ancient times."

The forum captured much attention because it was held after Taiwan announced the end of the "Period of National Mobilization for Suppression of the Communist Rebellion" in May this year and after James Lilley, former

U.S. Ambassador to China, and Bellocchi, Managing Director of the American Institute in Taiwan made statements that ran counter to the "Sino-U.S. Joint Communiqué." This forum was this year's largest on exchange between the two sides of the straits, one of the sponsors of the forum said.

Eye-catching Economic and Trade Developments

The topics under discussion at the forum were considerably comprehensive. The following were the major topics discussed by various scholars on economic and trade relations between the two sides of the straits. Since the Chinese Communists put forward in 1979 its policy toward Taiwan for the peaceful reunification of the motherland, the situation of military confrontation over a protracted period has been gradually alleviated. With the efforts to promote exchanges stepped up by both sides, the development of economic and trade relations has captured even greater attention. The comparatively more flexible policy adopted by Taiwan after 1987 to allow more contacts between the two sides has also helped develop economic and trade relations. According to statistics, the total volume of transit trade between the two sides via Hong Kong was merely \$77 million in 1979, and by 1990 had increased more than 50 times, reaching \$4.043 billion (Table 1). At present, the mainland has become Taiwan's fifth largest partner for export. With the continuous development of trade, Taiwan business investments have grown out of nothing, and rapidly developed in recent years. At present, 2,857 Taiwan businesses have invested in factories on the mainland, with the negotiated value reaching \$3.615 billion. Despite all this, the scholars attending the forum had doubts about this figure, believing the actual figure should far exceed this. The reason was that in addition to careless omissions in compiling statistics, some Taiwan businessmen might use the names of a third party to make investments on the mainland. Professor Lei Qiang of Chongshan University in Guangzhou said: "According to my investigation, the number of enterprises with Taiwanese investment in Guangzhou exceeds 2,000 now."

The Three Stages During the Past Decade

Cui Zhiqing, associate professor and deputy director of the Institute for Taiwan Studies of Nanjing University, divided the development of the economic and trade relations between the two sides over the decade into the following three stages:

1. Stage of Initial Development (1979-1983). During this stage, the scope of economic and trade relations between the two sides of the straits was limited to indirect trading with transit trade via Hong Kong as the main stream. Restricted by the attitude of Taiwan authorities, trading was carried out covertly on a fairly small scale, and its development remained unsteady.

2. Stage of Development With Ups and Downs (1984-1990) [as published]. During this stage, the transit trade between the two sides of the straits witnessed fairly high rates of growth on the basis of the preceding stage. However, the growth was still unsteady with ups and downs.

What attracted attention during this stage was the fact that the scope of trading began to expand, and some Taiwan businessmen started to invest in factories on the mainland through a third party. Nevertheless, the investments at that time were made covertly and on a small scale.

3. Stage of Large-scale Increases (1987-1990). Relations between the two sides of the straits became more positive and interactive after 1987. Economic and trade relations between the two sides entered a new stage. Both indirect trading and investments rapidly developed in quantity and in scale. Trade volume during this period doubled, and Taiwan business investments on the mainland were also greater than ever.

Understanding Reached on Issue of Mutual Benefit

All the scholars accepted the concept that economic and trade relations between the two sides could obviously be of mutual benefit.

Professor Liu Jianxing of Beijing Normal University pointed out that from the viewpoint of comparative advantage, the highly complementary characteristics in the economic relations between the two sides are demonstrated in the following aspects:

1. The two sides are complementary in essential factors of production. The mainland has vast land, rich resources, cheap labor, a huge market and strong scientific and technological force, but lacks capital, has backward management and technology, and little international marketing capability. Taiwan has adequate capital, is quite proficient in the use of processing technology, has rich management experience, and is skilled in marketing; but land is expensive, there is a shortage of labor, markets are limited, and the scientific and technological field is weak.

2. The two sides are complementary in terms of industrial structure. In terms of the ratio of the three major industrial sectors in the total output value during 1988, Taiwan's agriculture only accounted for 50 percent and services 50 percent; while on the mainland they accounted for only 19.7 percent and 19.2 percent respectively. In terms of industrial structure, Taiwan's first five major industries differed from the mainland in 1988. Machine building and metallurgical industries account for a larger proportion on the mainland, while these industries in Taiwan are weak. The electronics industry dominants in Taiwan, while on the mainland it is fairly weak.

3. The two sides are complementary in the product mix of exports.

Serious Trade Imbalance Across the Straits

Nevertheless, all the scholars attending the forum were worried when they talked about the serious trade imbalance between the two sides of the straits.

From 1979 to 1990 the value of imports from Taiwan to the mainland rose from \$21 million to \$3.278 billion, while the value of imports from the mainland to Taiwan rose from \$56 million to \$765 million in the same period. During the 1980's, exports from Taiwan accounted for

79.2 percent of bilateral trade, while those from the mainland merely 20.8 percent. The mainland's trade deficit reached \$10.05 billion during this period. Following increased indirect trade, this type of deficit was also increased. While Taiwan's trade surplus with the United States was rapidly dropping and its trade deficit with Japan was gradually increasing, Taiwan almost entirely relied on the support of the mainland in maintaining its trade surplus.

Differences in Future Prospects

Some people in Taiwan said: "The earliest direct trading between the two sides of the straits will take place in one year, and at the latest not more than six years."

Chen Fumin, Assistant Researcher of the Institute of Taiwan Studies under the Academy of Social Sciences of China, believes that after the first stage in which preliminary exchanges are made and mutual understanding reached in the middle of 1990's, there will be vast vistas for strengthening economic and trade cooperation between the two sides following readjustment of their political relations. Their economic and trade relations will be further strengthened in depth and breadth with investments in key projects and long-term and large-scale investments as the core; with financial and trade exchanges as the axle; with the development of the mainland market and the opening of the Taiwan market as the basis; and with utilization, stratification, learning from each other and raising standards as the goal. Their economic and trade relations will continue to develop in a sustained and thorough direction. In the later stage of the 1990's, economic and trade relations between the two sides of the straits will enter a stage in which efforts to attract Taiwan business investments will be combined with direct trading between the two sides; to link mainland investments with Taiwan domestic investments; and integrate economic interests with political interests. Finally they will achieve the goal of becoming economically interactive, helping each other, benefiting each other, making up for each other's deficiencies and promoting each other's economic and trading developments; and lay a material foundation for the peaceful reunification across the straits.

Lu Zhongwei, assistant researcher of the Research Institute of Contemporary International Relations of China, believes that during the 1990's or at the beginning of the 21st Century, the two sides may not be able to keep up with the momentum in rapidly developing their economic and trade relations. The reasons are: 1. The "triggering effect" in breaking the deadlock will become weaker and weaker. Indirect trade will greatly increase within 10 years, and can be largely attributed to factors of policy. This large rate of growth will be achieved mainly by support of the mainland's policy and relaxation of Taiwan's policy. However, this fast increase in trade built on policy will tend to slow down. On the one hand, it will be hard to repeat the large increase in trade volume, because the basic amount of trade has become large. On the other hand, it will be impossible to attain the maximum "triggering effect" created by direct trade between the two sides, if the Taiwan authorities persist in adhering to the "three nos" policy.

The proposal made by Taiwan's Advisory Committee of the Council for Economic Planning and Development under the Executive Yuan to control the rate of growth of export trade between the two sides of the straits under 10 percent makes the trading prospects gloomy.

2. It is difficult for the mainland to bear the heavy burden of trade deficits. In terms of trade across the straits, a trade deficit of more than \$10 billion is not a tiny burden to the mainland that has an extremely low "ceiling" in international payments. The mainland has been able to sustain this imbalance of international payments up to now, thanks to its trade surplus with the United States. That is, the mainland uses its structural trade surplus with the United States to offset its structural trade deficit with Taiwan. However, this cycle cannot proceed smoothly now. There are two reasons: First, Taiwan has adopted an "export substitution" strategy in making investments in the mainland's coastal areas, and tried to link investment with exports, and uses the mainland's share of textile products and shoe exports to the United States to try by hook or by crook to expand its exports to the United States, thus increasing trade friction between the two countries. Second, unable to withstand trade pressure from the Asian-Pacific Region, the United States has adopted control measures in dealing with both sides of the straits. With its relatively diminishing market and narrow sphere in business operation, the mainland finds it difficult to offset its trade deficit with Taiwan by using the mechanism of the comprehensive Asian-Pacific triangular trading cycle.

What To Do?

Professor Tang Shen of the Business College of the Taiwan Danjiang University believes that the future international economic and trade situation will be controlled by the three factors: The United States will play a leading role in North America, dominating the world economy. However, the economic strength of the European Common Market will also be strong. Western Europe will become an integrated economic zone in 1992, and its actual economic and trading strength will exceed that of the United States. But we face more changes in the situation and greater uncertainties, if we take Japan into consideration. Japan's actual economic and trading strength has increased every day during the past decade, and has made a great deal of innovation and technical progress in the development of many products. However, Japan also has its unconquerable inherent economic shortcomings. It has limited territory and natural resources. Therefore, it must develop itself outward. Otherwise, it will have no future in economic development and trade. Thus, I suggest that mainland's coastal provinces, the future united Taiwan and post-1997 Hong Kong and Macao must join together to work out a strategy of earning foreign exchange. On the other hand, they must form an alliance with Southeast Asian nations and Japan, use the Japanese yen as a means of international payments, and promote the steady growth of the overall macroeconomy.

Mao Zhulun, lecturer of the Business College of the Taiwan Chongxing University, pointed out that now,

inside Taiwan there are different attitudes on Taiwan's policy toward the mainland and its future. The relations between the two sides of the straits are even more complicated if the influence of the United States and Japan on Taiwan are taken into consideration. He believes that Taiwan announcing the end of the "Period of Mobilization for Suppression of the Communist Rebellion" in May this year, marks the conclusion of China's civil war. The two sides of the straits should start talks as soon as possible to promote stability, peace and national reconciliation between the two sides.

Lu Zhongwei believes that to push economic and trade relations between the two sides of the straits to a new height in the 1990's, it is first necessary to develop a new mechanism of cooperation across the straits in terms of the Asian-Pacific macroeconomy, and to find a link characterized by clear-cut division of work and smooth flow of commodities. Next, it is necessary to proceed from national interests to further strengthen economic and trade cooperation between the two sides in several spheres such as trade, finance, science and technology; and to make new, thorough and broad developments.

Table 1. Statistical Table on Transit Trade Between Both Sides of the Straits via Hong Kong

Year	Total	Rate of Growth	Exports to Mainland from Taiwan		Imports from Mainland to Taiwan		Taiwan Trade Surplus		Unit: \$10,000 (%)
1978	4,673		5		4,668		-4,666		
1979	7,713	65.05	2,130		5,583	19.6	-3,453		
1980	32,047	315.5	24,205	1,836	7,842	48.5	+16,363		
1981	45,671	42.51	39,048	61.3	7,631	-2.7	+31,409		
1982	29,819	-34.7	28,823	-47	8,996	17.9	+11,827	-62	
1983	26,477	-11.2	16,871	-19	9,686	0.78	+7,265	-39	
1984	55,463	109.5	42,660	153	12,883	33.3	+29,857	311	
1985	118,274	98.8	98,684	131	11,590	9.47	+87,094	192	
1986	95,764	-13.2	81,342	-18	14,422	24.4	+66,920	-23	
1987	151,815	58.5	121,725	49.7	38,898	189	+91,635	36.9	
1988	272,090	79.2	224,222	84.2	47,878	59.1	+176,552	92.5	
1989	348,339	28.0	289,649	29.2	58,698	22.6	+230,959	31.0	
1990	404,361	16.1	327,826	13.2	76,536	30.4	+251,290	8.8	
Total	584,506	72.8	1,289,182	47.3	295,324	30.5	+993,858	70.4	

Source: "Hong Kong Government Customs Statistics" December 1990; Compiled by Taiwan EXPRESS TRADE NEWS 22 Feb 91.

President Has Confidence in Financial Center

91CE0755A Taipei CHING-CHI JIH-PAO in Chinese
19 Aug 91 p 1

[Article by reporter Li Shun-te (2621 7311 1795): "President Li: I Am Very Optimistic About Establishing an Asian Financial Center"]

[Text] Taipei—In a recent statement President Li Teng-hui pointed out that Taiwan's financial base is very good and that he is very optimistic about establishing in the future an Asian financial center. However, he added, Taiwan's economic development now faces a bottleneck, and the renewal of the manufacturing industry must be made the main force for breaking through this bottleneck.

On 8 August, in his status as head of the ruling party, President Li, at the Institute of Revolutionary Practice, under the topic, "From the Indeterminate Era to the Practical Era," gave his views on the current world situation and on the economic and financial situation.

President Li at the same time pointed out that there are ambiguous phenomena in society and there is the problem of losing sight of what is positive while giving prominence to what is negative, thereby engendering in the populace ambiguous feelings.

President Li cited the example of Taiwan Plastics' statement that the Sixth Light Industry would set up a factory in Mailiao of Yunlin, about which reportage in the press did not stress the positive help to development but rather deliberately focused on some environmental problems that could occur. President Li said that his work in the rural areas began Haifeng Village of Mailiao and that the life of the common people in this village was one of extreme privation. Setting up an industrial park here, he said, would have a very big effect on improving the life of the common people in the Yunlin coastal area.

When talking of the "new world order," President Li put forward five important conditions as ideal ways for solving problems: 1) respect for human rights in each region; 2) free economies; 3) formation of regional security organizations; 4) substitution of negotiations for military force; and 5) UN intervention when necessary.

President Li said that a member of the U.S. House of Representatives once asked him: Will you apply for UN membership? President Li stressed: "This question is too broad. It has already been a long time since we withdrew from the United Nations. Before we apply for membership we must make sure that it would not be under circumstances that would increase our dilemmas."

President Li said that until there is a resolution of the relationship between the two sides of the strait we cannot make an application for membership, and that things should be done in order of priority.

He said that, as the situation with regard to the new world order becomes clearer, the Republic of China should move in the following directions:

—Increase its scope of international activity: Taiwan should set up an international aid fund, which would cooperate with practical diplomacy to promote the work of aid. If diplomats are short handed, professors and entrepreneurs may be assigned to this work.

—Politics can be made more modern and more rational: New blood should be infused into the representatives of the popular will at the center, and rationalization, not revolution, should improve our political system.

—Taiwan can be made better able to hold the balance in Western Pacific organizations and the international economic community: Taiwan must establish an Asian financial center and an international aviation center before it can establish its own important position in the Western Pacific.

—The internationally active forces of national defense strength, economy and trade, banking, culture, science and technology: The development of Taiwan's economy and trade is in great difficulty. More than 3,000 small-scale factories have fled to the mainland and new factories have not yet taken their place. The proportion of the manufacturing industry in the total economic structure is too low.

President Li emphasized that the country's industry must, by renewing the manufacturing industry, be the main force for breaking through the bottleneck in development. However, he said, Taiwan has been extremely slow in doing this, the changes in the total economic structure have been extremely detrimental, and efforts are needed to improve this situation.

With regard to the financial aspect, President Li thought that the base is very good and he is very optimistic about establishing in the future an Asian financial center. However, he thinks that the cultural aspect is very poor and that in science and technology there has not yet been attained an integration of research institutes, research offices, and industries.

—The conception of an ideal national defense: Modern warfare is electronic warfare, and with the current progress in electronics we can plan an ideal national defense.

—Peaceful mainland policy: Only under the premise of freedom and democracy will there be a basis for unification. Taiwan advocates multiparty politics and movement in the direction of freedom and democracy. The Chinese Communists should not fear "peaceful change" and should with alacrity understand the true needs of the people.

Gloomy Prospects for Second National Assembly

91CM0536A Taipei HSIN HSIN-WEN /THE JOURNAL/ in Chinese No 228, 28 Jul 91 pp 8-9

[Article: "Many Mistakes Will Create Nothing Perfect, Three Hints Indicate Ill-fate of Second National Assembly"]

[Text] With the easy adoption of the revisions to the "Election and Recall Law" and the unobstructed setup of the 58 electoral districts throughout Taiwan, the headquarters of the Kuomintang Central Committee on Chungshan South Road in Taipei must have been rocked with a prolonged ovation. The Kuomintang will surely win the three-quarters absolute majority of the ballots in the year-end election of the delegates to the Second National Assembly. The situation of the second-stage "one-party constitutional reform" has become clearer than ever!

It is precisely at this moment when the Kuomintang is filled with joy and great relief that we feel heavy-hearted. Democratic politics must be built with rational procedures, not only by unscrupulously taking power. Unfortunately, the Second National Assembly is precisely an entity that totally defies all rational procedures. First is the utterly unjustifiable increased number of delegates, followed by the ridiculous political party proportional representative system, then the crafty and pernicious division of electoral districts. Mistake, mistake, mistake, one mistake after another. This kind of political procedure is a new form of politics aimed at "democratic on the surface but autocratic in essence." By relying on this type of procedure, the Kuomintang may firmly sit on the throne of power. However, who knows what price the people in Taiwan will pay for these pernicious political procedures!

First, let us discuss the issue of the number of delegates to be elected to the Second National Assembly. Democratic politics invariably embodies totally different meanings and ideas for "distribution" and "mutual understanding." To "distribute" power, naturally it is better to have more people's representatives. However, it is difficult to achieve "mutual understanding" if there are too many public representatives with many divided views. Thus, organizations for the development of mutual understanding on constitutional rule in Western democratic countries invariably adopt the elite system which seeks the wisdom of a relatively small group of people. The U.S. Philadelphia Constitution, the Weimar Constitution of the German Republic and the new post-war Japanese Constitution were invariably written by a small number of elite people, fully proving it is better to use the elite system to achieve mutual understanding in constitutional rule issues. By fully exchanging their ideas, the elite can easily achieve mutual understanding, and their characteristics are the basis for long-term peace and order in the nation. On the other hand, all socialist countries are responsible for "distributing" power only. The highest institutions of political power are invariably composed of hundreds or thousands of people. It is impossible to rationally discuss issues, and party bureaucrats are able to control everything with party discipline. Thus, institutions responsible for achieving mutual understanding for constitutional rule are downgraded to rubber stamps of the party machinery.

It is unfortunate that the mixup of "distribution" with "mutual understanding" is precisely one of the traditional ideas for constitutional rule in our country. The large number of delegates elected to our national assembly becomes the only choice for the government and the

people in considering the issue of mutual understanding for constitutional rule. The number of delegates to be elected to the Second National Assembly will exceed 300, and it will be impossible to rationally exchange ideas and carry out debates. So far as the Kuomintang is concerned, how to win the three-quarters majority of ballots needed to amend the constitution through the design of the electoral procedure has become the center of all its political schemes in recent years. It has tried by hook or by crook to achieve its goal. Its first mistake is the increasing number of national assembly delegates.

Mistakes often produce chain reactions. To control the three-quarters absolute majority of votes needed to reform the constitution, all types of strategies have emerged one after another such as casting ballots by the military via correspondence, the eligibility of candidates from the farmers', fishermen's and water conservancy associations to enter election campaigns so as to achieve this goal. But all these are small tricks. The genuine major trick is the proposal of the one-ballot political party proportional representative system. The orthodox political party proportional system is aimed at protecting the minority and helping its feeble voices to be heard. Therefore, the orthodox proportional system must be a two-ballot one. However, the practice of the two-ballot system in Taiwan will make a great many voters cast their ballots separately, one ballot for the Kuomintang candidate and the other for the opposition candidate, and casting ballots separately may help voters achieve inner balance. As a result, there emerges the one-ballot political party proportional representative system.

This is the second mistake. The political party proportional system is originally aimed at protecting the majority. However, when it is implemented in Taiwan, it has become an unique one that "tallies the ballots twice" and benefits the larger party instead, as it only allows a voter to cast one ballot from the beginning to the end. "The poor become poorer, and the rich become richer" violates economic justice, and isn't it true that "the large party becomes larger, and the small party becomes smaller" violates political justice? This type of ridiculous political party proportional system which turns things upside down is a seriously unjust political procedure. It will soon face an extremely strong rebuff.

Due to the large number of delegates to be elected to the Second National Assembly, and for the convenience of assisting election work, even more in order to effectively mobilize to control the three-quarters absolute majority of the votes, we have the third mistake. The constituency has been divided into as many as 58 electoral districts. The rank or position of the delegate is equivalent to that between a provincial council member and a county or city council member. Besides trying to achieve the goal of helping the Kuomintang get mobilized in the local community to ensure victory, the practice of dividing the constituency in this manner precisely demonstrates the absurdity of the Second National Assembly shown by the large number of national assembly delegates. The function of the national assembly is to formulate basic national

plans such as constitutional order and achieving mutual understanding. Work should be carried out by people of higher rank and position, but it will be done by politicians of extremely low rank and position, and in terms of political power the rank is only equal to that of a county or city council member. In this sense, is the Second National Assembly itself violating the order of constitutional rule?

Hence, to carry out the second-stage constitutional reforms, we have embarked on the path of making one mistake after another since the decision was made on the number of delegates to be elected to the Second National Assembly. In the process of making repeated mistakes, there have emerged various thoughts and ways to try by hook or by crook to win the three-quarters of seats. Proven by past elections for the heads of various towns, townships, counties and cities as well as county and city council members, in which the Kuomintang could win almost 85 percent or more votes, we have no doubt that the Kuomintang could definitely win more than three-quarters of the seats in the year-end Second National Assembly election, and easily fulfill its task to carry out the "one-party constitutional reforms."

What we worry about is: When the design of a set of political procedures violates the basic principle of justice, it may certainly score victory. However, seeds of failure are already sown in the course of winning this victory, because this victory is won by relying on "schemes and power" rather than "abilities" and by depending upon various "plans" to expel others. The Kuomintang will certainly win a sweeping victory in this year's election. Next year a large number of low-ranking delegates will go to Yangmingshan to revise the constitution at the order of the Kuomintang Central Committee. At that time, let us see the swarms of demonstrating people taking to the streets! Those constitutional reforms carried out without the exchange of ideas among the elite are imbued with inherited weaknesses in maintaining the order for constitutional rule. We fear that constitutional reforms will lead to even greater deviations and differences instead of helping to achieve mutual understanding in running the constitutional government.

The accumulation of many mistakes will create nothing perfect. Looking at the repeated mistakes in carrying out constitutional reforms, can we feel optimistic about our future in running the constitutional government?

Report on Recent Economic Development

91CE0742C Taipei CHING-CHI JIH-PAO in Chinese
13 Aug 91 p 2

[Article by Yu Chih-Ch'in (0060 6400 3830): "Three Favorable Trends, Three Unfavorable Trends in Economic Development"]

[Text] Wei Tuan [7279 4551], head of Bureau of No. 3 of the Executive Yuan's Directorate General of Budget, Accounting, and Statistics, stated yesterday (12 August) that there are three factors working against economic development this year: a slow pace of private sector

consumption, excessive reliance upon Mainland markets, and increasing income disparity.

However, Wei also pointed out three favorable factors: recovery from the recession, a rebound in private sector investment, and continued growth in national income.

Wei said that exports increased sharply in May, June, and July, most of which was accounted for by sharply increased exports to Hong Kong. About 40 percent of these exports were subsequently traded to the mainland, which shows that Taiwan's reliance upon the Mainland for trade is gradually increasing. We must keep our eye on this situation to prevent any sudden retrenchment in Chinese Communist trade or investment policy from having an adverse impact upon Taiwanese factories and commercial firms and damaging the Taiwanese economy.

Another phenomenon worth noting is the decreased pace of private sector consumption. This has lead to fewer purchases of durable goods such as automobiles and household appliances, and restaurant and entertainment income has fallen. The preliminary forecast calls for a growth rate of 6.11 percent in private sector consumption this year, far below the 13 percent growth rate of 1988 and 1989, when the stock market was skyrocketing and financial investments were very popular. This has affected growth in the manufacturing and service sectors. Wei stated that this is the main reason why recovery from the recession has not been quick enough.

Wei stated that widening income disparity is another factor that is unfavorable to economic development. He stated that the highest income bracket was 5.18 times higher than the lowest income bracket, and that income disparity has been widening every year since 1980. Unequal distribution of income violates the "equal wealth" tenet of the "People's Livelihood" principle of and it can easily cause social problems, so it should be dealt with carefully.

Although there are three hidden factors working against economic development this year there are also three factors which facilitate economic development.

1. The world economy is coming out of recession. When the Persian Gulf war finished early this year, international oil prices came back down and the uncertainty which caused economic growth to drop off in various countries dissipated. Consumers and manufacturers gradually regained confidence. The most recent information from the principal forecasting agencies around the world indicates that the global economy can be expected to begin recovery in the latter half of this year. The economic growth rate for industrialized countries for the entire year is 0.9 percent, the lowest growth rate since 1982. An average economic growth rate of 3.3 percent is forecast for the industrialized nations next year.

2. Private sector investment has rebounded. Although private sector fixed asset investment in the first half of this year has been sluggish, the socioeconomic factors limiting investment have been removed, so private sector fixed asset investment can be expected to rise in the last half of

this year. The Directorate carried out a study of the investment plans of private manufacturers in July, and discovered that investment by private manufacturers will grow by 6.75 percentage points this year, which represents a recovery in comparison with the 6.84 percent decline in such investments last year. In addition, the study also indicates that income will continue to rise next year, and prospects for profits and production equipment will be better than they were this year.

3. National income continued to increase, enhancing capacity for economic development.

Editorial on Utilizing Foreign Reserve Funds

91CE0748A Taipei CHING-CHI JIH-PAO in Chinese
8 Aug 91 p 2

[Editorial: "Infatuation With the Idea of Using Foreign Exchange Reserve Funds To Import Capital Goods"]

[Text] The premier recently called a conference to discuss the fiscal and economic situations. During the meeting, national policy advisor Chao Yao-Tung [6392 5069 2639] proposed a method for spurring industrial development. The main thrust of his proposal was to utilize excess foreign exchange reserves to import capital goods, thereby stimulating investment and increasing domestic production capacity. This proposal was heartily endorsed by Premier Hao, who immediately instructed the central bank to study methods of implementation. This is actually an old issue. Particularly when the ROC foreign exchange reserves began skyrocketing after 1981, people began handling cash improperly and private sector investment dropped off, and many citizens always wondered why the central bank did not make effective use of its foreign exchange reserves, thinking that such action would: 1) Prevent improper activities, and 2) Increase national strength. Academics at the time also put forward feasible plans for utilizing the reserves, but after two years there is still no consensus on the issue. Now that policymakers at the highest level have revived the issue and set off lively discussion, we feel the need to at least clarify two important concepts. First, does the government have the right to use the foreign exchange reserves? Second, how are we to make effective use of the foreign exchange reserves?

Most people wonder why the central bank does not make "free" use of the foreign exchange reserves since they are in the central bank's possession. This involves the question of ownership of foreign exchange reserves. We know that the central bank is not a production unit, nor is it a profit making organ. It does not make any products, but it does have responsibility for issuing currency. The great majority of the foreign exchange in its possession has been obtained from individuals or commercial firms which exchange foreign currency with the central bank for Taiwanese dollars. So where does the foreign exchange in private hands come from? Most of the more than U.S.\$70 billion of foreign exchange in Taiwan are the result of a foreign trade surplus. In other words, our people manufacture products by the sweat of their brow, and these are then taken by export firms and shipped abroad in exchange for

foreign currency. Businessmen could keep the foreign exchange thus obtained, but compensation must be paid for the various factors of production which are expended during the manufacture and export of these products, and this compensation is issued in Taiwanese dollars, so the vast majority of foreign exchange must be converted into Taiwanese dollars. Because only the central bank has the authority to print Taiwanese dollars, foreign exchange inevitably ends up in the hands of the central bank. If there is a trade surplus every year, foreign exchange will accumulate. The total amount of foreign exchange on hand at any time is what is referred to as the foreign exchange reserves. Whether speaking of foreign exchange or Taiwanese dollars, what everybody should be concerned about is their purchasing power, so the conversion of foreign exchange into Taiwanese dollars takes place within the context of unchanged purchasing power. This conversion is carried out with reference to the "exchange rate." Thus, the foreign exchange in the hands of the central bank and the Taiwanese dollars issued in exchange for this foreign currency should be of equal value. There is only "one type of purchasing power" to speak of; if it is not represented in Taiwanese dollars, then it is represented in foreign currency. In other words, there is only one sum of money, and the people are the original owners of this purchasing power; the central bank is merely responsible for its safe keeping.

In order to further clarify the manner, we could make a comparison with the relationship between a bank and the holder of a checking account. The depositor deposits currency in the bank and receives checks which he may use to pay for transactions equal in value to the total of his deposits. Checking accounts generally do not draw interest. In calculating money supply at this time, one can only count the amount funds credited to the depositor in the checking accounts; if the currency which he had deposited there were separately calculated as part of money supply, it would be counted twice. If the bank took this currency and used it, it would inevitably cause prices to rise. However, we must stress at this point that if this currency can be used "increase purchasing power," this shortcoming can be avoided. This is precisely the reason why banks loan out currency. However, it is to be noted that if "extra" purchasing power is to be created, the borrower must be someone capable of making "efficient use" of these funds. Only under such circumstances will there be a surplus after principal has been repaid. In addition, we must also be aware that the original depositor may withdraw his funds from the bank at any time, so the bank cannot loan out the entire deposit.

This analysis should afford us a relatively clear understanding of foreign exchange reserves, and it clarifies the fact that private individuals are the owners of foreign exchange reserves while the central bank is merely a passive participant responsible for its safekeeping. In principle, foreign exchange cannot be touched except at the request of the people, because the people, as owners of Taiwanese dollars, may at any time wish to exchange their Taiwanese dollars for foreign exchange. This touches upon the fact that for the people, the ultimate purpose of

economic activity is not to earn foreign exchange. What foreign exchange represents is merely purchasing power, and the object of this purchasing power is not domestic products but foreign products which either cannot be produced domestically or for which the costs of domestic production are too high. These foreign products can be consumer goods, and they can also be production goods or capital goods. The former can directly increase the people's welfare while the latter can indirectly increase their welfare by increasing productive capacity, thereby increasing the people's purchasing power. Whether it is consumer goods or capital goods which are purchased, they must be purchased from abroad, otherwise inflation will ensue. In other words, people in the ROC earn foreign exchange in order to "import" goods from abroad. The most efficient way to do this is for people who possess Taiwanese dollars to exchange them at the bank for foreign currency, or for an importing firm to use its foreign exchange to import goods from abroad, which it then sells on the domestic market in exchange for Taiwanese dollars. For this reason, the question we should focus on is: why is this process being impeded? What we should be asking ourselves is whether there are inappropriate policies which are impeding this process. This is why we repeatedly stress the question of whether there are government policies which restrict imports. The question of whether inappropriate government policies are obstructing private investment channels goes to the heart of the issue of sluggish private sector investment.

For this reason, the central bank does not have the authority to touch foreign exchange reserves except at the request of the people. Its function is to serve as "safe-keeper." However, the central bank can make use of foreign exchange reserves by making loans, and of course it can also surreptitiously play around with foreign exchange reserves without the authorization of the people. An example of the former would be the issuance of bonds in order to recover Taiwanese dollars. An example of the latter would be the use of foreign exchange to carry out various kinds of asset choice behavior. However, we must place special stress on the fact that unless the central bank is confident that using foreign exchange in these ways represents "the most efficient use" of foreign exchange, and will increase purchasing power, then their actions will shrink purchasing power. The same basic principle holds true for the idea (recently reintroduced) of having the government use foreign exchange reserves to import capital goods.

Dominican Republic Seeks Minerals Cooperation

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18 Sep 91*

[Text] Taipei, Sept. 18 (CNA)—The Dominican Republic hopes to cooperate with Taiwan in developing mineral resources, especially marble, in the Caribbean country, Ambassador Juan Julio Morales Rosa said Tuesday.

Ambassador Morales, visiting eastern Taiwan, told Hualien County Magistrate Wu Kuo-tung and County Assembly Speaker Yu Chuan-wang that marble mining

and processing in his country has been dominated by Italian businessmen for many years. Dominican Republic will welcome Taiwan's participation in the exploitation of marble in his country.

Wu told Ambassador Morales that the industrial development bureau is planning to develop Hualien County into a world center for jewelry processing and stone-cutting center within the next five years. Wu hoped that cooperation in marble production with the Dominican Republic will start as soon as possible.

Morales said he will arrange for Wu and Yu Chuan-wang to visit to his country next summer.

Foreign Trade Expected To Hit \$135 Billion

*OW1309065991 Taipei CNA in English 0828 GMT
12 Sep 91*

[Text] Taipei, Sept. 12 (CNA)—Taiwan's foreign trade is expected to total 135 billion U.S. dollars this year, up 11 percent from 1990, the Board of Foreign Trade (BOFT) predicted today.

Under the nation's 1991-96 development plan, foreign trade was projected at a 6.5 percent growth annually. BOFT officials said the higher-than-expected growth was made possible by booming exports during the past months.

The growth, officials said, was due to pressure from the appreciation of the New Taiwan dollar which was pushing local exports to ship ahead of schedule.

Customs statistics showed that Taiwan's foreign trade totaled 93.92 billion U.S. dollars between January and September 7, an increase of 14.7 percent from the corresponding period of the previous year.

Editorial on Central Bank, Finance Policies

*91CE0795B Taipei CHING-CHI JIH-PAO in Chinese
3 Sep 91 p 2*

[Editorial: "Key To Resolving Financial Policy Dilemma"]

[Text] What the Central Bank intends to do with the interest rate and exchange rate is being closely watched in all quarters and has been the subject of much speculation lately. As reported in this paper a couple of days ago, a consensus has been achieved within the bank to nudge the interest rate downward in order to ease pressures to revalue the new Taiwan dollar without, however, increasing the money supply. Now that President Hsieh of the Central Bank and Director Peng of the Foreign Exchange Bureau, who accompanied Vice President Li on a three-nation visit to Central America, returned home a couple of days ago, the bank's policy on interest rates and exchange rates is widely expected to be clarified soon. As we see it, what is at stake is the financial policy as a whole, which is being besieged right now by a host of difficulties: rising inflationary pressures, growing pressure to revalue the new Taiwan dollar, and increasing demand to cut interest rates. We believe, therefore, that the Central Bank should take a courageous and resolute decision based on an

objective analysis of the situation and adopt all necessary measures. It must take a firm stand and make an all-out effort to implement it if it is not to lose its direction.

Financial policy-makers at the Central Bank currently face three kinds of difficulties. First, the money supply has been growing faster than the rate set by the bank two months in a row. Although the Central Bank said that such expansion remains within tolerable limits, it cannot afford to treat it lightly or hope to limit its inflationary impact. Under the present conditions, however, the Central Bank is either unwilling or unable to tighten credit or raise interest rates. Second, as Taiwan continues to pile up a surplus in its foreign trade and domestic interest rates remain much higher than their foreign counterparts, the new Taiwan dollar has come under enormous revaluation pressure. The Central Bank balks at a substantial revaluation and continues to moderate its rise through market intervention. But this has become a major factor behind the steady expansion of the money supply. Third, domestic interest rates are much higher than interest rates in the world. As the economy recovers, the demand by industry and commerce for funds also rises. Hence the growing demand that the Central Bank cut interest rates. Meanwhile, high interest rates also attract an inflow of foreign capital, reinforcing revaluation pressures on the new Taiwan dollar. Yet the Central Bank is wary of cutting interest rates mainly because of the rapid expansion of the money supply.

These three problems are related to and interact with one another, so any one isolated measure often conflicts with others, which puts the Central Bank in a dilemma. When the bank acts to ease its plight in one area, it often exacerbates the problems in other areas. In the end it is always blamed for whatever it does. As mentioned above, the bank proposes to "nudge the interest rate downward without causing the money supply to increase." It may be that the Central Bank has "no other choice." In our opinion, however, this move is neither realistic nor consistent with the needs of financial liberalization and may even lead to credit rationing. With financial liberalization, interest rates are prices determined by the supply and demand of funds. How can we nudge interest rates downward without increasing "fund supply?" Only a decrease in fund demand will bring about a drop in interest rates. Usually the only way to deflate the demand for funds when such demand is strong is to make funds more expensive by raising interest rates. But by inducing the interest rates to come down, the Central Bank would only succeed in reinforcing, not weakening, the demand for funds. Under these circumstances, the Central Bank can only trim the demand for funds and push interest rates down by "credit rationing." But credit rationing is not consistent with the principle of liberalization and may distort the proper allocation of funds and lower the efficiency of fund utilization.

The fact of the matter is that caught in the triple bind of mounting inflationary pressures, growing pressure on the new Taiwan dollar, and high interest rates, there is no way the bank can please everybody no matter what it does, as

borne out by the fiscal experiences of all nations. Caught in this predicament, the Central Bank must weigh the priority of each policy goal in light of past experience and an objective analysis of the current situation and take a courageous and resolute decision in a detached, independent, and autonomous manner free from interference. It should do everything necessary to maximize the benefits and minimize the damage. At this point the bank should take into consideration the opinions and demands of all quarters, including the hopes of the industrial and commercial community, lobbying by representatives of public opinion, and even pressure from interest groups, but must not be controlled by them. This is what gives the Central Bank its most distinctive characteristic—controlling credit to suit the circumstances. It is also what the independent Central Bank should do, which is critical to the implementation of the financial policy.

Even more important, the decision and policy thus arrived at and the action that it takes may not necessarily meet all policy requirements, let alone satisfy every party. But the bank must choose the best course of action and then stick to it. It must take a firm stand. Should it cave in to outside demand or pressure and take measures contrary to the above-mentioned principles, not only will it lose its direction, but it may also have serious consequences. At present, everyone is putting pressure on the bank, directly or indirectly, and through every channel; probably the result of the failure of the bank in the past to stand firmly by its position as well as its tendency to try too hard to accommodate outside demands. The bank's ability to choose the best course of action, and do everything possible to carry it out, depends largely on whether or not it has full confidence in its decision, policy, and actions. Such confidence, in turn, springs from the expertise and experience of the bank's policy-makers in fiscal policies and their fearless moral courage. It is our profound hope that the Central Bank fully understands what is at stake and that the authorities concerned face up to the real issue.

Banks Announce Cuts in Interest Rates

OW2509091191 Taipei CNA in English 0810 GMT
25 Sep 91

[Text] Taipei, Sept. 25 (CNA)—The Bank of Taiwan cut its prime lending rate by 0.5 percent to 8.875 percent beginning Wednesday.

The Bank of Taiwan rate is now the lowest of 12 local banks which announced cuts in both lending and interest rates Tuesday. The Bank of Communications' prime rate of 10.25 percent is the highest of the 12.

The cuts were in response to the Central Bank of China's announcement last week that it was lowering its interest rate to local banks 0.5 percent and slashing the required reserve ratio against time deposits and time savings deposits by 0.75 percent.

After the adjustment, one month time deposits now generate an interest of between 5.9 percent (the First Commercial Bank and three other banks) and 6.25 percent (the Chang Hwa Commerical Bank).

Interest for three-month time deposits now ranges from 7.15 percent (Taipei City Bank) to 7.4 percent (Overseas Chinese Commercial Banking Corporation).

Six-month time deposits now bear an interest of between 7.875 percent (Bank of Taiwan) and 8 percent (Overseas Chinese Commercial).

Nine-month rates stand between 8.375 percent (the Bank of Communications) and 8.5 percent (Overseas Chinese Commercial).

For one-year time deposits, the Bank of Taiwan offers the lowest interest of 8.625 percent per annum while the Taipei City Bank offers the highest at 8.7 percent.

Rates for two-year time deposits range from 8.625 percent to 8.75 percent, and those for three-year deposits, from 8.65 percent to 8.875 percent.

Editorial on Trade, Economic Imbalance

*91CE0748B Taipei CHING-CHI JIH-PAO
in Chinese 11 Aug 91 p 2*

[Editorial: "A Discussion of the Foreign Trade Surplus and Overall Economic Disequilibrium"]

[Text] Taiwanese exports have been quite vigorous for three months in a row, and the trade surplus has expanded significantly. Government regulatory departments estimate that the total trade surplus this year will once again exceed U.S. \$10 billion, which reminds people of the overall economic disequilibrium which accompanied the expansion of trade surpluses about four or five years ago. It raises the question of whether history will repeat itself.

There are several important causes of overall economic disequilibrium. In a trading economy like ours, huge, uninterrupted trade surpluses year after year are a very important factor. Since 1985, the ROC trade surplus has surpassed U.S.\$10 billion every year, and three or four years ago this led to such abnormal phenomena as a gambling craze and wild stock market speculation. For this reason, one feels the same sort of fear upon hearing talk of overall economic disequilibrium as one would feel upon hearing of a wild tiger on the loose. One worries that those abnormal phenomena might reappear. In reality, these fears are somewhat groundless. The simplest reason for this is the fact that the ROC economy is 70 percent larger than it was five years ago, or 100 percent larger if calculated in terms of the U.S. dollar. The ability of the economy to absorb trade surpluses has grown correspondingly, so a surplus of the size which might have caused overall economic disequilibrium four or five years ago could be an important factor for stability today. The government is now aggressively pushing various projects connected with the six-year plan, and experience in the past has shown that this course of action will accelerate the pace of imports. If there were not a strong trade surplus, people would worry that these construction outlays would cause a trade deficit, which would in turn cause concern about the reappearance of another type of overall economic disequilibrium.

Financial policy is another key issue. In the absence of any major offsetting factors, huge trade surpluses inevitably cause a surplus in the international balance of payments which, due to the accumulation of foreign exchange, leads to problems in two areas: exchange rates and the money supply. These two issues are counterpoised against each other, and they are a direct cause of the last round of overall economic disequilibrium in the ROC. The accumulation of large sums of foreign exchange exert direct upward pressure on the exchange rate. Currency appreciation dampens exports and economic growth, but if the currency does not appreciate it will lead to excess growth in the money supply and to fears of inflation, so there is no easy way out of the situation. This situation three or four years ago coincided with plummeting petroleum prices. International price levels remained stable for a few years, severing the normal relationship between money supply and price levels, so the central bank brought about excess growth of the money supply in order to head off currency appreciation, resulting in the so-called phenomenon of overall economic disequilibrium. There is now little chance of another occurrence as fortunate as plummeting oil prices, so if there is excess growth in the money supply, prices will quickly reflect this fact, thereby putting the central bank on alert. Under such circumstances, we naturally will not see the type of overall economic disequilibrium which occurred three or four years ago.

An improved market mechanism is another important instrument for heading off overall economic disequilibrium. As everyone knows, foreign exchange controls were liberalized to a great extent four years ago in ROC, and in recent years long and short term foreign exchange inflows and outflows have increased considerably. This change has greatly reduced the direct impact of trade surpluses upon overall economic equilibrium. If the trade surplus continues to expand, the floating exchange rate will serve as a preliminary barrier. Readjustment of the exchange rate will exert a regulatory impact upon the amount of foreign exchange reserves deposited with the central bank, and it will lessen the impact of foreign exchange accumulation upon money supply. If the money supply should grow too much, lower interest rates caused by easier money as well as short term outflows of foreign exchange will prevent the exacerbation of exchange rate and money supply problems. Four or five years ago we had not yet implemented this system, and unfortunately overall economic disequilibrium resulted. Now that this system is in place, the market will play a major role, and it is unlikely that we will commit the same errors as we did before.

These changes in the objective environment and in the system tell us clearly that the type of overall economic disequilibrium which occurred three or four years ago will not repeat itself, but this is not to say that the ROC will never again experience overall economic disequilibrium. In reality, the ROC is in a state of overall economic disequilibrium right now. For one thing, the huge trade surplus means that there is a large amount of excess savings in our country of which foreigners could make use. In the second place, domestic interest rates are higher than in industrialized nations, and construction bonds issued by

the government have not been selling well. When these factors are considered together, this poverty amidst plenty is a type of overall economic disequilibrium. In the future, as progress in the six-year plan accelerates, domestic demand for funds will become more and more urgent. If the trade surplus continues to expand, this disequilibrium will get worse and worse, and it is not yet clear what type of problem could evolve.

In summary, although the trade surplus will not lead to a reappearance of the economic problems experienced three and four years ago, there is no guarantee that it will not lead to some other type of overall economic disequilibrium, for which reason it would be best to prepare now for whatever hard times may be ahead.

Economic Growth Projected 6.95 Percent This Year

*91CE0742B Taipei CHING-CHI JIH-PAO in Chinese
13 Aug 91 p 1*

[Article by Yu Chih-Ch'in (0060 6400 3830): "Economic Growth Rate of 6.95 Percent Projected for ROC This Year"]

[Text] The Executive Yuan's Directorate General of Budget, Accounting, and Statistics released statistics yesterday (12 August) on national income and forecast an economic growth rate of 6.95 percent this year. Wei Tuan [7279 4551], head of a bureau within the Directorate, stated that the ROC economy has recovered from recession and will maintain moderate growth.

The Directorate held a national income statistics review conference yesterday in order to review and approve 1990 national income statistics and to forecast economic health for 1991.

The Directorate stated that the economic growth rate for the second quarter of this year, under the influence of greatly increased exports in May and June, reached 7.11 percent, 1.2 percentage points higher than the original forecast. Because exports are expected to continue growing sharply in the third and fourth quarters, a growth rate of 6.95 percent has been forecast for this year, 0.89 percentage points higher than the forecast of the previous quarter, and very close to the economic planning target of 7.0 percent.

The Directorate's preliminary forecast calls for a gross national product (GNP) this year of more than 4.8 trillion yuan, equivalent to U.S.\$178.4 billion. Per capita GNP computes out to U.S.\$8718. A surplus of U.S.\$97 billion is forecast for goods and services, and the consumer price index should rise by 3.52 percent over last year.

The Directorate also forecast an economic growth rate of 6.86 percent for first half of next year and a GNP of U.S.\$97.4 billion.

According to Wei Tuan, these statistics indicate that the ROC has recovered from the economic recession of last year. In the future, within the context of moderate inflation and accelerated progress on infrastructure projects

under the six-year plan, economic development in the ROC will continue at a moderate pace.

The Directorate yesterday revised figures for last year's GNP, setting the final figure at more than 4.3 trillion yuan, the equivalent of U.S.\$160.9 billion. This translates to an economic growth rate of 5.02 percent (0.27 percentage points lower than preliminary statistics released early this year) and a per capita GNP U.S.\$7953.

The Directorate stated that the main reason why the economic growth rate last year was below preliminary statistics was that the government opened up the banking sector to international firms last year, thereby increasing international service outlays. At the same time, smaller numbers of foreigners came to Taiwan, their daily consumption declined, and their average stay in Taiwan was shorter, which cut Taiwan's international services income by U.S.\$600 million and caused the GNP to fall.

Government Invests \$10 Million in European Bank

*91CE0756B Taipei CHING-CHI JIH-PAO in Chinese
19 Aug 91 p 1*

[Article by reporter Lin Chen-mei (2651 6297 5019): "We Invest \$10 Million in European Development Bank"]

[Text] Taipei—Taiwan will invest \$10 million, in the name of the "Taipei China-Europe Cooperation Fund," to join a special fund of the European Reconstruction and Development Bank (ERDB).

The ERDB, which was inaugurated in April this year, invited Taiwan to join it in helping the East European countries to develop their market economies. If Taiwan joined it could cooperate with West European countries in aiding East European countries, and this cooperation would be extremely helpful for enhancing Taiwan's substantive relations with Europe.

An official concerned with this matter said that, after discussion by high-level officials of the Central Bank, Ministry of Foreign Affairs, and Ministry of Finance, Taiwan decided to join the fund in the name of the "Taipei China-Europe Cooperation Fund." Also, with the initial agreement of the ERDB, the ERDB will try to get for Taiwan the status of "observer" at this year's session. This will be the first time since 1966, when it joined the Asian Development Bank, that Taiwan has joined an international financial organization. Because Taiwan does not have diplomatic relations with the European Common Market, this move is of important political significance.

According to the ERDB charter, only European countries or members of the World Bank can become ERDB members. Taiwan is not a member country of the World Bank and thus is not qualified to join the ERDB, but it can join a special fund of the ERDB.

The official said that Taiwan's goal for the future would be to get the ERDB charter revised, so that it would allow member countries of regional financial organizations to

join the ERDB. At that time Taiwan would join the ERDB as it would qualify as a member of the Asian Development Bank.

The way that Taiwan will join the ERDB in the form of a special fund is similar to the way that Japan joined it. The official said that, with regard to this fund of Taiwan's, which gives priority to providing technical aid and loans for research and development to Eastern Europe, the ERDB has agreed that before it can draw on this fund it will have to get Taiwan's assent and, therefore, Taiwan can pick the object of its aid.

The official said that the ERDB attaches importance to our country's act in joining it in the form of a special fund, and Jacques Attali, the bank's governor, in response to an invitation by the Central Bank, will visit Taiwan. The ERDB hopes that Taiwan, before Attali's visit, will send representatives to the ERDB headquarters in London to sign the relevant agreement, which has been reported to the Executive Yuan for its approval and decision.

Attali has been France's finance minister, and he is a private adviser to French President Mitterrand. His agreement to visit Taiwan is also extremely important to the enhancement of Taiwan's relations with France.

In 1989 French President Mitterrand suggested that the European Parliament establish the ERDB. The suggestion received support, and the bank was inaugurated in April this year. Its capital is now 10 billion European Currency Units (ECU), and there are now 40 member countries. America holds 10 percent of the bank's stock, making it the largest member country; the 12 ECU countries hold 51 percent of the stock, the largest share.

Use of Foreign Exchange Reserves

91CE0755C Taipei CHING-CHI JIH-PAO in Chinese
18 Aug 91 p 2

[Article by reporter Hsu Yun-t'eng (1776 7189 7506): "Foreign Exchange Reserves Should Be Used More Vigorously"]

[Text] Taipei—Taiwan has too much foreign exchange reserves. Generally speaking, we only need to keep \$40 to \$50 billion to meet emergency situations in Taiwan's import-export demand, and the remaining \$10 to \$20 billion should be used more vigorously.

Singapore's Government Investment Corporation (GIC) and Temasek Holding are the Singapore government's two investment companies, and they are responsible for managing the Singapore Government's assets (including foreign exchange reserves).

According to an estimate made by the Singapore Funds Management and Advisory Company, the Singapore Government's overseas investment could exceed \$20 billion.

Singapore, Kuwait To Make Direct Investment of Foreign Exchange Overseas

Singapore Finance Minister Hu Tsu Tau once pointed out that the Singapore Government was preparing to make

direct investments in Hong Kong's telecommunications industry, entertainment industry, mass media, real estate, as well as financial organizations.

Through these investment operations overseas (including mergers and purchases) Singapore not only can obtain profits but also can set up sales bases for entering overseas markets; or seek more stable sources of natural resources (minerals, timber, and crude oil), as well as agricultural products; or import technologies to expand further the scope of Singapore's economy.

Hsieh Sen-chung [6200 2773 0022], governor of the Central Bank, said that the Central Bank manages the foreign exchange reserves on behalf of all citizens of the country, and that it must stress the security, fluidity, as well as profitability of the foreign exchange reserves. He added that if the Central Bank does not take into consideration and study the practices of Singapore or Kuwait, it will increase the risks in using the foreign exchange reserves.

Hsieh Sen-chung said that the central banks of all countries in the world, for the most part, invest their foreign exchange reserves in bond markets and money markets in the form of holding active deposits and fixed deposits in foreign currency in order to spread the risk. The way that Singapore and Kuwait operate is a special case, and it would be unsuitable for us to introduce it wholesale.

The Central Bank Might as Well Follow Their Example in a Small Part

The person in charge of the Taiwan Bank's Overseas Management Department said that the way that Kuwait and Singapore operate is basically worth studying, but, looking at our country's political environment, he is afraid that it will not be easy to do things in this way. To implement a plan along these lines, the government's policy-making officials must have a good deal of resolution and boldness, and the legislative organs must stand together and help each other.

Lawyer Liu Shao-liang [0491 4801 2856], of the Theoretical Law and Legal Affairs Institute, said that the way that Singapore and Kuwait operate can be considered and studied. The somewhat over \$7.2 billion in foreign exchange reserves that Taiwan now has are really excessive, and to take out of them \$1 or \$2 billion for more active use in the direction of foreign exchange operations is something that the Central Bank can consider for the future.

Liu Shao-liang said that, under the circumstances of a sustained favorable trade balance, there is naturally a large accumulation of foreign exchange reserves, and to a certain degree these foreign exchange reserves "subsidize America's financial deficit," causing a misallocation of funds. The Central Bank cannot blindly seek low-risk ways of using foreign exchange reserves. Low-risk requirements entail low remuneration rates, and low remuneration rates, after the deduction of the inflation factor is made, are bound to cause the substantive remuneration rate to tend to be on the low side.

Hsieh Sen-chung said that, beginning on 12 April last year, all citizen-run enterprises only had to put forward specific plans for overseas investment and then they could apply for foreign exchange funds to be converted, blended, or circulated from the Communications Bank, China International Commercial Bank, China Import-Export Bank, Huanan Bank, and other banks, so that the use of the foreign exchange reserves would be able to expand further the scope of Taiwan's economy and promote economic development. The Central Bank will not give preference to profitability.

Excessive Loss in Remittances Is Worth Examining

Professor Yin Nai-p'ing [3009 0035 1627] of the National Political University said that the result of Taiwan's holding so much foreign exchange reserves has been a great loss in remittances (nearly 300 billion new Taiwan dollars), and in the Central Bank's management of the foreign exchange reserves there are really still areas worth examining.

Yin Nai-p'ing pointed out that, since Taiwan is deficient in natural resources and in high science and technology, the Central Bank could consider allocating \$1 or \$2 billion of the foreign exchange reserves to purchase abroad, through specialized investment banks, natural resources, raw materials, and production technologies or to merge with or purchase large international enterprises.

Through this way of vigorously using the reserves, economic growth can be promoted more directly.

Hsieh Sen-chung: Taking Full Responsibility for Management

Central Bank Governor Hsieh Sun-chung said that the Central Bank's foreign exchange reserves can, by means of the foreign spot exchange markets (example: the U.S. dollars needed by the rapid transit system for its machinery and equipment), the Taipei foreign currency short-term interest loan market, as well as the conversion, blending, circulation of foreign exchange funds (example: the plan for overseas merger and purchase of the China Petroleum Corporation and Hungchi Computer), can provide reserves for use by citizen-run enterprises; and the Central Bank will take full responsibility for the management of the foreign exchange reserves.

Central Bank Deputy Governor Yu Cheng [0205 2398] said that the Central Bank only manages the foreign exchange reserves for the benefit of the citizens, and that laws and decrees have not yet given the Central Bank the authority to make direct investments overseas. The Central Bank, he added, cannot directly merge with or purchase overseas enterprises with the foreign exchange reserves; not to mention that the risk in this kind of use of foreign exchange reserves is too high.

Yu Chung said that, provided the citizen-run enterprises as well as the government with new Taiwan dollars buy U.S. dollars through banks, the Central Bank can consider its handling of the foreign exchange reserves, and this way of transforming assets is comparatively feasible.

An Investment Company With Specific Responsibility Can Be Established

(reporter Hsu Yun-t'eng—Taipei)

Chang Liang [1728 2856], general manager of the Huanyu Financial Advisory Company, yesterday (the 17th) said that the Executive Yuan and the Central Bank might as well consider the establishment of the Taiwan Investment Corporation (TIC) with specific responsibility for managing part of the foreign exchange reserves, so that these reserves can be used to buy natural resources property rights as well to merge with or purchase high science and technology international enterprises and thereby expand the scope of Taiwan's economy.

The Huanyu Financial Advisory Company is a specialized investment bank set up as a joint venture by the United States' Shearson, Lehman, Hutton, Inc. and Singapore's (Wenshish) [3306 3044] Group. The responsibility for part of the operation of the Central Bank's foreign exchange reserves has also been entrusted to Shearson, Lehman, Hutton, Inc.

Chang Liang said: "The Singapore and Kuwait governments do not have an organization with specific responsibility for managing government assets and foreign exchange reserves. As a result, their profitability is not bad and there is a positive effect on economic expansion. The way that these two countries have successfully developed is worthy of reference for Taiwan's policy-making authorities."

The Kuwait Government controls its assets and foreign exchange through the KIO [Kuwait Investment Office]. Besides depositing some foreign exchange in banks with high international prestige, it uses the foreign exchange to buy stock in large international enterprises, to buy government bonds, and even to merge with or buy overseas enterprises. The KIO even has shares in the overseas common funds that Taiwan issues.

After Iraq withdrew its army from Kuwait, the KIO promptly returned this part of its foreign exchange assets to Kuwait in order to support Kuwait's postwar reconstruction. The KIO's way of operating is quite successful.

Assistance for Merging With or Buying Large International Enterprises

Chang Liang pointed out that the Central Bank will hold the great majority of the foreign exchange reserves in the form of ready cash (making deposits; buying treasury bonds and bonds; as well as making short-term interest loans to the Taipei foreign currency short-term interest loan market). Although this way of managing funds provides good security and fluidity, it is deficient in profitability as well as in economic returns. Speaking of Taiwan's need for economic development, the policy-making authorities might as well consider entrusting part of the foreign exchange reserves to shareholding banks with specific responsibility for operating these reserves. These banks would use these reserves to buy natural resources and to buy stock in large international enterprises (e.g.,

IBM) and even to merge with or buy high science and technology international enterprises.

Chang Liang said that, provided the Executive Yuan, Legislative Yuan, as well as the Central Bank can unite under this breakthrough conception, the domestic shareholding banks can get together and jointly establish an organization with specific responsibility, and then there will be no question about its ability to operate.

With regard to the funds needed for expansion in the financial plans for merging with or buying large international enterprises, very few of Taiwan's citizen-run enterprises be the main nexus for buying or merging with large international enterprises. The foreign exchange funds can help to solve the difficult problem of their funds insufficiency.

Dissent in Legislative Council Maintains That We Must Proceed With Care

(reporter Chang Cheng [1728 2973]—Taipei)

Shearson Lehman Hutton Inc., the American stockbroking company that manages Taiwan's foreign exchange reserves, has suggested that funds be allocated from Taiwan's foreign exchange reserves to establish the TIC, which would then appropriately use the foreign exchange asset, but some members of the Legislative Council have reservations about this proposal.

Liao Fu-pen [1675 4395 2609], convening member of the Legislative Yuan's Budget Committee, pointed out that the foreign exchange reserves may said to now be the most advantageous counter in Taiwan's foreign trade. He said they are also the state's most basic property, and unless there is a great deal of control we should not lightly shift them to operations or investments.

Wang Chin-lin [3769 0093 7992], convening member of the Finance Committee, said that the foreign exchange reserves do not belong to the government but rather to all the common people. Although he does not oppose the appropriate use of the foreign exchange reserves, he thinks that the way they are used and the direction of their investment must be handled with extreme care; in particular, high science and technology or natural resource exploitation are highly profitable investments, or, in other words, highly risky.

P'eng Pai-hsien [1756 4102 7359], secretary general of the Democratic Progressive Party group in the Legislative Yuan, also dissented. He thinks that it is time for the foreign exchange asset to be used flexibly, and that the proposal by Shearson, Lehman, Hutton, Inc. means that the use of this asset will be managed but it is not certain that a company established by the government should operate it.

Editorial on Sixth Naphtha Cracker Issue

91CE0742A Taipei CHING-CHI JIH-PAO in Chinese
9 Aug 91 p 2

[Editorial: "An Exploration of Industrial Policies After the Resolution of the Sixth Naphtha Cracker Issue"]

[Text] The controversial case of Formosa Plastic's sixth naphtha cracker has finally come to a close with the decision to build it at Mailiao, in Yunlin county. This investment, which will exceed 90 billion yuan, is the largest private sector investment ever here, and it is unquestionably a shot in the arm for the domestic investment climate, where there is little enthusiasm for private investment. Not only have government departments in charge of regulating industry breathed a sigh of relief, but the jolt of excitement felt in the industrial community can be imagined. Nevertheless, four years and ten months of turbulence passed between the original application for the project and the final approval. There are certain topics and lessons involved in the process which are worth reflecting upon and internalizing. At the same time, this investment has highlighted changes in the domestic industrial structure. These things should be important factors for consideration in the future formulation of industrial policy.

Formosa Plastics applied to build the naphtha cracker back in 1973, but its first three applications were not accepted by the government. Formosa Plastics finally gained governmental approval when it applied for the fourth time in 1986 to build the sixth naphtha cracker, but a strong domestic environmental movement sparked off a battle lasting four years and 10 months to see whether the environment or industry would be accorded the higher priority. A tug of war to secure the plant ensued between Li'tze (Yilan), Kuanyin (Taoyuan), Mailiao (Yunlin), and Aoku (Chiayi).

There were several key controversies during this period: Could pollution from the naphtha cracker or from the petroleum industry could be brought under effective control? Had the environmental protection record and environmental protection investments of similar plants been in line with standards? How great a price in terms of pollution is to be paid in the course of economic development? What is more, Formosa Plastics chairman Wang Yung-Ch'ing [3769 3057 1987] stayed far off in the United States, and there was talk that he intended to go to the Mainland to develop Haicang, which turned the issue into a question of where the industry would be developed. It was this jolt which spurred government regulators in Taiwan to pick up the pace of activities and help Formosa Plastics to overcome the problem of selecting a plant site.

We feel that, after having paid the price of a five-year delay, the entire society should take a significant lesson from the aforementioned turbulence: the balance between environmental protection and economic development must be continually reformulated as time passes and as the level of economic development changes, otherwise imbalances will occur. At the same time, this "dynamic equilibrium" must be systematized and made subject to regulations. This would be the most effective way to lessen unnecessary friction. In other words, we should strive for completeness in the relevant environmental protection regulations, and they must be continuously amended. Industry must be determined to observe and exceed the requirements of environmental regulations. The general

populace must be prepared for gradual progress. Environmental protection agencies must enforce the law. Other administrative departments must respect environmental protection policies. These factors and principles are the basis for defusing conflict between environmental protection and development.

In addition, the Directorate General of Budget, Accounting, and Statistics estimates that the construction of the sixth naphtha cracker will take three or four years and the average annual investment could reach 22.5 billion yuan, contributing 0.5 percentage points to the economic growth rate. These estimates have been arrived at by calculating the size of the investment against preliminary estimates of this year's gross national product. In reality, the chain reactions resulting from this investment have not been figured into this estimate. Any investment will set off a series of chain reactions. Except for what will be imported, the things purchased domestically for this project will naturally result in increased investments. The capital goods needed for the construction of the sixth naphtha cracker are referred to as the "backward chain reaction." At the same time, after the sixth naphtha cracker is built, downstream petrochemical firms will rush to invest. This is referred as the "forward chain reaction." Viewed from this perspective, the Formosa Plastics investment is capable of spurring a considerable amount of secondary investment, and this must certainly be looked upon favorably.

However, as construction resumes on China Petroleum's fifth naphtha cracker and commences on the Formosa Plastics sixth naphtha cracker, there is a need for us to consider the future of the petrochemicals industry, and even the future of industry as a whole as well as the overall direction of industrial structure. After the fifth and sixth naphtha crackers, calls for a seventh and eighth naphtha cracker will follow immediately. We need to reconsider the appropriateness of an industrial policy which places top priority on industrial development.

In the past three years, the proportion of the gross domestic product accounted for by industry has declined two percentage points per year, while the same figure for the service sector has risen at about the same rate. The service sector now accounts for about 53 percent of gross domestic product while this figure has fallen to less than 50 percent for the industrial sector. In comparison with the experience of other industrialized nations, a structural change of six percentage points in three years is astoundingly fast. However, if we compare the proportion of domestic economic activity accounted for by the agricultural, industrial, and commercial sectors with the situation in other countries, we can see clearly that our domestic industrial sector still accounts for the highest proportion of economic activity. In other words, although the rapid changes which industrial structure has undergone in the past few years have caused concern that our industry is becoming hollowed out, in terms of the actual proportions we are confident that there is still room for further decline in the proportion of economic activity accounted for by industry, and the possibility exists for further expansion of

the service sector, even though the rapidity of this change does merit some uneasiness. The proportion of economic activity accounted for by the service sector at this time is only on a par with the level in Japan in the 1970's.

Viewing the issue from this macroeconomic perspective, while it is true that we take a positive view of the effect of the Formosa Plastics sixth naphtha cracker upon economic development and upon the rest of industry, we nevertheless maintain a cautious attitude regarding continuous expansion of the petrochemicals industry, including calls for a seventh and eighth naphtha cracker. If this type of heavy petrochemicals industry expands further, not only will it impede readjustment of overall industrial structure, but it will also increase demand upon various public utilities, such as power and water. This would exacerbate the shortage of power and water resources. At the same time, it would run counter to the goals of our overall energy policy. More seriously, it could exert additional pressure upon the aforementioned dynamic equilibrium between environmental protection and development, touching off another round of disequilibrium and conflict which, if handled improperly, could even threaten the ability to carry on operations at the fifth and sixth naphtha crackers after they have been built. Government regulators of industrial policy should take a long term view of these issues.

In short, now that the sixth naphtha cracker issue has been settled, the government should (in addition to considering the direct and indirect benefits of investments) reassess the costs and benefits to the overall society of heavy chemical industries within the context of today's new industrial structure. Only in this way can the government prudently decide where to go next with our industrial policy. It must not repeat the same error as before, acting impetuously without careful consideration of the issue at hand.

Hao Po-tsun Calls for Unity, Greater Development

OW1409025291 Taipei China Broadcasting Corporation News Network in Mandarin 2300 GMT 12 Sep 91

[Text] Kuo Wan-jung, chairman of the Council for Economic Planning and Development, pointed out during her report on the current economic situation at a meeting of the Executive Yuan that the domestic economy is evidently recovering in the second half of the year. Premier Hao Po-tsun attributed the recovery to efforts made by all the people and the government.

He said: After the Cabinet reshuffle, underground economic irregularities have been held in check, the stock exchange market no longer behaves erratically, and public order has been improved to some extent. Moreover, both the international and domestic situation have become much better. We should be united in harmony to seek even greater development on the basis of what we have already had, rather than throw ourselves into confusion.

Liquefied Natural Gas Imports To Increase

*OW2109093691 Taipei CNA in English 0818 GMT
21 Sep 91*

[Text] Taipei, Sept. 21 (CNA)—The Chinese Petroleum Corporation (CPC) will increase imports of liquefied petroleum gas (LPG) over the next 10 years, a CPC official said today.

The state-run oil company imports 1.5 million tons of LPG from Indonesia annually. In order to diversify LPG sources, CPC has decided to import liquid gas from Malaysia, Qatar, Australia, Alaska, the United States, and Australia.

CPC General Manager Kuan Yung-shih said that 70 percent of the LPG locally needed comes from abroad, mainly from Indonesia. The company's annual payment for LPG imports is about 7.5 billion nt dlsr.

In order to meet growing domestic demand, CPC has decided to import 3 million tons of LPG from both Indonesia and Malaysia annually for the next five years.

Madame Chiang Kai-shek Leaves for New York

*OW2109093291 Taipei CNA in English 0751 GMT
21 Sep 91*

[Text] Taipei, Sept. 21 (CNA)—Madame Chiang Kai-shek left for New York Saturday morning in a special plane of the China Airlines.

She was seen off at the Sungshan Airport in Taipei by President Li Teng-hui, Vice President Li Yuan-zu, and other high-ranking government leaders.

Madame Chiang, who returned to Taiwan from the United States in October, 1986, plans to stay in New York for a long period of time, an informed source said.

Raising Capital for Airport Construction

91CE0976B Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 29,
22 Jul 91 pp 8-9

[Article by Mai Li-chiang (7796 0500 1730), director of Nomura Research Institute (Hong Kong) Ltd: "Airport Construction and Capital Available in the Money Market"]

[Text] Early in July, Chinese and British negotiators signed a "Memorandum of Understanding Concerning the Construction of the New Airport in Hong Kong and Related Questions," thereby removing obstacles against the construction of the new airport, and construction is about to begin of basic facilities for the airport and for the harbor.

According to an item of most recent financial information regarding the costs of constructing the new airport, calculated at March 1991 prices, the outlay for the main items of capital construction would reach \$84.3 billion, an increase of 7 percent over the \$79 billion announced by the Hong Kong government last year. If costs for Wanchai land reclamation and airport railway construction are added, total costs would be \$98.6 billion. The Hong Kong government and private financial groups will participate in the raising of the required capital at the ratio of about 63 to 37.

Forty Billion Dollars Construction Capital To Be Raised in the Money Market

Calculated at the above-mentioned values, and omitting the portion to be contributed by Hong Kong government, private financial groups may have to raise about \$30 to \$36 billion. Add to it that according to the Memorandum, indebtedness beyond 1997 must not exceed \$5 billion, and the total to be raised in the money market will come to about \$35 to \$40 billion.

Because the initial item, the construction of the Lantau-New Territory Bridge, will be defrayed completely by the government itself, this huge financial proposition will not come up for realization before the middle of 1992. However, no matter when this plan will be implemented, the banking industry affirms that it should play an important role in this connection, as it will also derive benefits from it. It is assumed that the capital required in this instance will have the following special characteristics: 1) The amount of capital is very large. Reviewing past experiences, Hong Kong has never before raised so huge an amount of capital and at the same time used Hong Kong capital to that extent. Even the construction of the subway in 1975 required a capital of only \$5.8 billion, and the \$5.8 billion of that year are equal to about \$23 billion today. The capital of \$40 billion estimated to be required for the present large-scale capital construction is therefore close to double the capital required for the subway.

Currency statistics again show that this year the total deposits in all banks at the end of May amounted to \$1,262.7 billion, so that the estimated \$40 billion for the capital construction would account for about 3 percent of

the total deposits, which is also probably 5 percent of loans presently being out in Hong Kong.

Capital Must Be Raised With Due Consideration for the Overall Situation

Because the estimated capital requirement is so huge a sum, it may create a certain pressure on the money market. The capital that is now required for the airport project will have the following special characteristics:

1) Raising capital requires time. Actually, about somewhat over half a year ago, the subway company had to arrange for a loan of \$1.5 billion, and it required a certain length of time to successfully raise this money. The estimated \$40 billion loan which is now needed is more than 20 times the capital recently required by the subway company. Even if this huge project will be carried out in stages, the required capital is still a huge amount, and it will take quite some time to raise that amount.

2) It is estimated that interest rates for the presently required capital will be comparatively high. Of the H.K. \$1.5 billion capital recently required by the subway company, \$740 million were in Hong Kong dollars and the rest in U.S. dollars, at interest rates according to the Hong Kong and U.S. banking trade rates with the addition of 0.315 and 0.26 percent daily interest. As customary in the past, the interest rate that was applied for someone like the subway company serves as reference for the cost of financing other schemes. However, in the present case the amount of capital needed for this large-scale capital construction is very large indeed, add to it also the fact that banks all over the world are trying to be in compliance by the year 1993 with the proportion of risk capital prescribed by the Bank of International Settlements. This puts a strain on efforts to raise capital, and as a result loan interests before 1993 and 1994 will possibly be very high.

3) It is assumed that banks with abundant deposit funds, such as the Hang Seng Bank, the Hongkong and Shanghai Banking Corporation, and Chinese-funded banks will have a much better chance to participate in the present financing scheme. As to foreign banks, it is predicted that Japanese-funded banks will also actively participate, but hindered by the fact that the Bank of Japan itself will also want to satisfy the demands of the Bank for International Settlements, it might find it rather difficult to allot any funds. It is therefore estimated that initial participation in the financing may not necessarily be large, but later participation could be much larger.

Even though the huge financing scheme that is presently planned may possibly exercise a certain pressure on the money market, the actual situation at the present time is such that Hong Kong is quite capable of coping with the situation. Actually, the amount of foreign exchange fund certificates presently issued already exceeds \$10 billion, but there would be no difficulty at all in arranging for the needed capital. Although there is a big difference between the \$10 billion fund certificates and the amount of \$40 billion capital, it is thought that there will be no great difficulty in raising the necessary capital.

We should point out: The amount of capital to be raised this time is huge, and we also cannot find at the moment any example to serve us as reference. The best method would therefore be to lay out exactly the phases at which the engineering project is to progress, and when raising the capital, this should then also be arranged in proper sequence. One must not at one time excessively tighten the capital situation in the market, otherwise interest rates will be driven up and become unstable. Concentrating too much trying to raise capital at one time will also require a comparatively longer period of time. Raising capital should therefore be arranged according to an overall plan. The participation of the government, of the private sector, of the Airport Administration, or of private companies in the raising of capital must all be well arranged, their participation must be well coordinated, as otherwise there will be undue pressure on the money market, and also pressure on the Hong Kong dollar.

No Large Impact on Inflation Expected From Capital Construction

Whether such a large-scale construction project will lead to serious inflation is a question that is difficult to answer. But we can adduce an example, namely the construction of the subway in 1975. The first stage of this engineering project was started in 1976, and by 1980 the first phase was completed. The year 1975 was the time when the world economy had just experienced an economic recession because of the rise in oil prices, but a time when throughout the world economy signs of recovery began to appear—Hong Kong was no exception—and the economy quickly developed. At that time, i.e. from 1976 to 1978, inflation of Hong Kong's currency was somewhere between 5 and 6 percent. By 1979 the inflation rate had risen to 11.6 percent, and by 1980 even to 15.5 percent. The main reasons for this was another large increase in oil prices. Other reasons were the construction of the subway and an overheating of the economy during the preceding few years.

Reviewing the past and looking at the present, we see that even though the construction project that is about to be undertaken is larger than anything in the past, in those earlier days Hong Kong had shown a very conspicuous phenomenon, namely abundance of manpower. In those years the average annual increase of manpower was maintained at 3 to 4 percent. But at present Hong Kong is facing the problem of insufficient manpower. From 1988 to now, in all these years, Hong Kong's manpower maintained a level of about 2.78 million without noticeable increases. Especially in the manufacturing industry and in the construction industry the number of persons employed is even declining. Therefore, if we look at the present manpower supply situation, there is not the slightest doubt that inflation is certainly very high. However, if foreign labor is brought in according to the present labor importation policy of the Hong Kong government, there is need for an additional 27,000 workers every year, which amounts to about 1 percent of the labor population. This would mitigate the pressure of rising wages, add to this also the fact that the Hong Kong Government controls the regular

expenditure of the government-operated sector of the economy, thus it is assumed that inflation will not become very sizeable and could be maintained at a reasonable level.

The problem is that the supply of land is limited in Hong Kong, namely as a rule only 50 hectare every year, but Hong Kong has internally certain needs for land. If labor is shipped in from outside, the housing problem must be solved. For these reasons, land prices, house prices, and rents have been exercising a certain inflationary pressure during the last few years. However, I do not at all agree that the government should unduly intervene in the real estate market, because undue intervention would only lead to even greater shortage and a faster rise in house prices. The government should start out from the supply side, make more land available and build houses to increase supply and ease the demand pressure, thus stabilize house prices and rents, and slow their upward move, so they will not shoot up like rockets. In this way, not too strong an inflationary pressure will be created.

Impact of Inflation on Economy

91CE0757A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 31, 5 Aug 91
pp 23-24

[Text] In the 1990's inflation has become an obstacle impeding Hong Kong's economic development. After telephone, gas and electricity fees increased at the beginning of the year, the overall price level went up in April and May. For example, for an ordinary four-member household living in public housing, in May rent went up 19 percent, transportation costs increased 15 percent, and expenses for food, tobacco and liquor increased 32 percent. No wonder that people of all walks of life in Hong Kong share the feeling that "inflation is more threatening than the tiger." Worries, complaints, and anxieties are manifested on their faces. This obstacle affects thousands of households and restrains economic development. Naturally, people have focused their attention on the question of how to contain rising inflation. I will attempt to make some comments on the causes and negative effects of inflation in Hong Kong.

Dangers

Today, the momentum of high inflation in Hong Kong has been established. From January to April this year, the increase in the inflation rate was over 10 percent. In April, the inflation rate based on the price index for Category A increased 13.9 percent over the same period last year, approaching the highest record of the last ten years. The severity of Hong Kong's inflation is reflected in the following aspects:

First, inflation in Hong Kong has remained high for the last three consecutive years, accompanied by weak and slow economic growth. This has made it even more difficult to contain high inflation and has reduced the self-regulating capacity of the Hong Kong economy.

Second, persistent high inflation in the Hong Kong economy has led to the increase in the costs of local products, and prices of export products, thus impairing the competitiveness of Hong Kong products in overseas markets.

Third, high inflation has put Hong Kong's financial sector in an abnormal situation where negative real interest rates persisted for a long time. This has not only brought about credit expansion, but also encouraged speculative activities. It may even speed up capital flight from Hong Kong, thereby posing a threat to the development of Hong Kong's overall economy.

Fourth, chronic inflation will unavoidably give rise to the inflationary expectation of the Hong Kong people. To protect their own properties from the encroachment of inflation, most people will seek ways to hedge their bank deposits. They will either invest in real estates and rush to buy houses, or purchase precious metals. This will in turn aggravate inflation.

On the serious trend of Hong Kong's inflation, a senior economic analyst of the Chartered Bank of Hong Kong, Guo Guoquan commented that: "high inflation will have a depressing impact on Hong Kong's overall economic development. It is now time to deal with the problem of high inflation." The Executive Director of the Hong Kong-Shanghai Bank, Pu Weishi also warned that "inflation in Hong Kong has reached a dangerous level. Hong Kong's economy will be undermined unless inflation is put under control." The problem of inflation in Hong Kong will not only put Hong Kong's own economy at risk, but also affect the various countries' investments in Hong Kong. Trade associations of Sweden, Germany, Australia, the Netherlands, and India in Hong Kong have all issued declarations to urge the Hong Kong government to seriously attend to the issue of inflation. It seems that if this "strange creature" of high inflation is not tamed, the prosperity of Hong Kong's economy and social stability will be compromised.

Causes

The causes of Hong Kong's inflation are complex. There are objective, or cyclical and structural factors, and subjective or policy factors. After reviewing this inflation, various circles in Hong Kong shared a dominant view that the latter were the direct and main cause for inflation.

Cyclical inflation means that Hong Kong's inflation is fluctuating cyclically. Ten years ago, in 1980 and 1982, there used to be two-digit inflation rates which fell automatically afterwards. Structural factors imply that, Hong Kong is in a period of economic transformation and its economic structure is undergoing significant changes. The present high inflation is a result of the imbalance in Hong Kong's economic structure. First, the industrial structure is highly skewed. Employment in the manufacturing sector has been sharply reduced, and the demand for the services sector has grown rapidly with a large increase in employment, thus pushing up the overall salary level in Hong Kong. Second, there is an imbalance in the structure of assets. Real estate assets have repeatedly grown since 1984, and reinforced by bank credit, have attracted consumer investment, thus aggravating inflation. Admittedly, the two aspects mentioned above are among the causes leading to Hong Kong's inflation, but they are not the direct and major causes of the high inflation this time.

Many people in Hong Kong regard policy factors as the initial cause for high inflation this time. First, the Hong Kong government has traditionally taken a laisse faire attitude towards inflation. In 1988 the inflation rate grew from 5.5 percent in 1987 to 7.5 percent. The government did not pay enough attention to the problem, believing that "while the economy is growing briskly, a rather high inflation rate is tolerable." It refused to take any measures to contain the rising inflation, using the excuse of "noninterference policy." In January this year when a two-digit inflation rate had continued for three consecutive years, a financial official of the Hong Kong government argued that inflation was a "necessary phenomenon" in the course of economic adjustment, and that "inflation is unavoidable in the process of adjustment." Under this policy direction, it should not be surprising to see inflation run rampant today. Second, in recent years, the Hong Kong government deviated from the financial principle of "keeping expenditures within the limits of income," which proved very effective in the past. Government expenditures have increased drastically by more than 20 percent for three consecutive years. The growth rate of public spending was 7.6 percent last year and 5.9 percent the year before. It is predicted to increase 6 percent this year. All of these growth rates exceeded Hong Kong's output value by 200 percentage points. As a member of the Legislative Council put it, "it represents 12 billion Hong Kong dollars." In a Legislative Council meeting at the end of May, many members unanimously pointed out that the excessive growth of public spending was an important cause of inflation. Moreover, to promote the privatization scheme, the Hong Kong government hastily turned government services and benefit sectors into profit-seeking commercial sectors. It did not consider the receptive capacity of the Hong Kong people before setting out a mandatory target of 16 percent profit rate. This led to an abnormal situation where, for instance, the Hong Kong Post Office raised prices by 33 percent even though it is making profits. Also, the policy of high land prices substantially raised the price of public housing and triggered large increases in the prices of private housing. This undoubtedly contributed to inflation. Finally, after the new fiscal budget bill was implemented, the government drastically increased indirect tax and approved the major transportation media, such as the subways, light railways, Kowlong railway, and the two types of buses to raise prices substantially, thus leading to the rise in the general price level. Therefore, many people in Hong Kong believe that the various policy factors mentioned above aggravated inflation in Hong Kong.

Inflation is found in the process of economic development of various countries in the world. Experiences have demonstrated that, as long as the government is determined and adopts practical anti-inflation policy, high inflation can be controlled.

A few days ago, the Hong Kong government announced its nine-point anti-inflation measures. People have noticed the government's gesture to control inflation. What Hong Kong people are expecting, however, is to turn this gesture into more concrete and effective results to reduce high inflation.

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